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Central Asia and the Caucasus

- U.S.'s Policy in Central Eurasia: Specifics and Prospects
- Russia's Policy in Central Eurasia: Specifics and Prospects
- Energy Policy and Energy Projects in Central Eurasia

**CENTRAL EURASIA AND
THE EUROPEAN UNION****EU'S CENTRAL ASIA POLICY:
THE ADOPTION OF A NEW STRATEGY PAPER
2007-2013****Nicklas NORLING**

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As Germany took over the rotating presidency of the EU in the first half of 2007 one of its primary tasks was to redirect and reform EU's Central Asia policy before the Council's adoption of a new Strategy Paper for Central Asia in June. As Germany's Presidency Program explicitly states: "The Presidency will pay particular attention to the strategically significant region of Central Asia. The EU plans to adopt a strategy on Central Asia defining its interests and objectives." Moreover, following a meeting with MEPs on 23 January, 2007, Germany's Foreign Minister Frank-Walter Steinmeier announced that Germany would launch a new "Central Asia Initiative" which would bundle together energy and

security, the two overarching interests of the EU in the region, into a single coherent strategy. It is still, as of May 2007, unclear if this initiative will complement the Regional Strategy Paper or be integrated into it. Nevertheless, the urgency of a redirection of policy could scarcely be understated considering that Europe's substantial interests in Central Asia rarely have been more evident while the absence of strategy seldom has been clearer.

According to the draft Regional Strategy Paper for Central Asia 2007-2013 the EU's strategic objectives are:¹

¹ A draft version of the Regional Strategy is available at the website of the European Commission's delegation

- 1) To ensure the stability and the security of the countries of the region;
- 2) To help eradicate poverty and increase living standards in the context of the Millennium Development Goals;
- 3) To facilitate/promote closer regional cooperation both within Central Asia and between Central Asia and the EU, particularly in the energy, transport, higher education and environmental sectors.

Let it be acknowledged that the EU has launched some well-received initiatives among which the Technical Assistance to the Commonwealth of Independent States (TACIS) perhaps is the primary one. Let it also be acknowledged that 366m Euro has been spent since 1991 (although this is only a fraction of the size of U.S. assistance) and that Central Asia has received an upswing in attention since 9/11. Still, there are some major shortcomings in the EU's strategy which Germany will need to correct in order to realize the strategic objectives above. These flaws generally relate to the EU's past policies being reactive in nature rather than proactive. This reactivism is seen in relation to Afghanistan's new role after Operation Enduring Freedom, failure to recognize the potentials in continental trade (including energy), and the tendency to disengage from the Central Asian leadership. In the words of the German FM: "As far as

to Kazakhstan [http://www.delkaz.ec.europa.eu/pr/eng/REPOSITORY_assistance/Programmes_and_Projects/Geographic/DCI/CA_CSP&IP_2007-2010/Regional_20Strategy_Paper_20CA_2007-13_20rev_20june-15-2006_En.pdf], 20 January, 2007.

our common European past is concerned I can't see any stage where people were strongly interested in this region."² In contrast to Europe's past disengagement, Germany seems to have harbored serious intentions in Central Asia as it took over the presidency. Good news is also that Germany is particularly well-positioned to undertake these reforms.

Angela Merkel's Germany is currently the strong power in Europe during a time when both France and the U.K. are changing leaderships. Germany is also the largest European donor to Central Asia. In contrast to the EU's draft strategy for 2007-2013 barely mentioning Afghanistan while downplaying the threat of Islamic fundamentalism, German FM Steinmeier has recently and repeatedly stated that these two issues coupled with energy will be the essential components in Germany's proposed strategy toward Central Asia. Energy security has also profiled big during Germany's presidency, since the adoption of the EU constitution has procrastinated. Finally, Germany has also advocated a lifting of the sanctions imposed on Uzbekistan which so far has done little but strengthened the influence of China and Russia on the Uzbek regime in the vacuum left behind by the EU's and the U.S.' disengagement after the violence in Andijan in 2005. This awkward yet necessary dialog is something which is urgently needed, since a stable and accommodative Uzbekistan is one of the most important factors for a stable and prosperous Central Asia.

² "German FM Sketches New Policy for Central Asia," *Uzreport*, 24 January, 2007.

Afghanistan's Role in Central Asia's Security and Economy

However, perhaps the most important factor influencing Central Asia's path toward stable, democratic, market economies is how things will turn in Afghanistan. Apart from Afghanistan itself, few have a greater interest in Afghanistan's stabilization than the Central Asian states. This is not only

because the drug trade running on the northern route from Afghanistan via Central Asia has pulled the rug out from under the entire state apparatuses and criminalized the fabric of Central Asian societies, but also because radical Islamism presents a persistent threat. Despite the proximity to Afghanistan, Pakistan, and its volatile Northern Areas, which currently form the world center of Islamic fundamentalism, the EU has been unwilling to recognize the Central Asian governments' fear of a spill-over effect. This is especially so in the last few years.

The Islamic threat has instead mainly been seen as an excuse for the Central Asian governments to crack-down on minorities and dissidents. For example, the draft Strategy Paper 2007-2013 states that: "The perceived threat to security from violent acts by 'illegal' opposition groups, or terrorist organizations, have come to dominate the agenda of Central Asian states. This signals a partial reverse of previous advances made with regard to the protection of human rights, particularly in Uzbekistan and Tajikistan... The conflation of Islamic fundamentalism and terrorism by some governments in particular invites further radicalization." Even if the Regional Strategy Paper acknowledges that the threat of Islamic fundamentalism should not be "underestimated" the EU does not seem serious in its intention to support Central Asia in countering it. After hearing these types of statements, the Central Asian states must have little faith in the EU's support for counter-terrorism and that assistance in improving the efficiency and professionalism of security forces will be forthcoming.

Hence, although 9/11 alerted Europe to the radicalization of the wider Central Asian region, including Afghanistan, it has mistakenly assumed that this problem has been dealt with and that the Central Asian countries should direct their attention elsewhere. This in spite of recent violent clashes between security services, border guards and armed rebels. In May 2006, for example, three Tajik border guards and a Kyrgyz customs official were killed by suspected Islamic Movement of Uzbekistan (IMU) members whose ties to al-Qa'eda and Afghanistan are proven beyond doubt.

The interconnections between radical Islam in Afghanistan, Pakistan, and Central Asia do however form a substantially larger part of Germany's agenda for Central Asia. Indeed, FM Steinmeier recently noted that even energy interests are secondary to the "instability" and "radical Islam exported northward" from Afghanistan and Pakistan to Central Asia. This realization is becoming even more urgent considering the resurrection of the Taliban, the opiate bumper crop produced in Afghanistan in 2006 nurturing militant organizations, and the fact that NATO's International Security and Assistance Force's (ISAF) has taken over command in Afghanistan from OEF. Germany and France also have bases in Central Asia supporting the operation in Afghanistan—Germany at Termez in Uzbekistan and France at Ayni-airfield in Tajikistan. In this context, the joint interests of Europe in the wider Central Asian region including Afghanistan have rarely been clearer.

If Afghanistan's threat and role in Central Asia's security has received too little attention from the EU, the case is even worse when it comes to the opportunities that Afghanistan holds for Central Asia.

The U.S. overthrow of the Taliban removed not only an extremist version of Sunni Islam from their southern borders, but it also opened prospects for the Central Asian states to pursue continental trade and open transport corridors through Afghanistan down to the Indian Ocean and beyond. This potential role for Afghanistan as a vital land bridge for Central Asia to foreign markets is not even mentioned in the EU's strategy for Central Asia, and little if any attention is given to the prospects of trading south of the former Soviet border. Besides ignoring the millennial trading ties that once existed in this region before it was colonized and subject to both Great Power contestation and proxy-wars (in the case of Afghanistan), it fails to reflect on the burgeoning trading ties currently establishing themselves across Eurasia where Afghanistan has the potential to be at the crossroads. For the first time in more than a century the land-locked Central Asian countries have the option to trade omnidirectionally and enjoy port-access in the Indian Ocean, which is far closer than their current use of Baltic ports. With the restoration of the ring-road in Afghanistan, the Karakorum highway, and nu-

merous road projects running from neighboring countries to Afghanistan pivotal cities e.g. Kandahar to Pakistan, Mazar-i-Sharif to Central Asia, and Herat to Iran, there are great potentials for this to be realized. Competition between the Iranian port of Chah Bahar and Pakistan's new Gwadar port also promises to boost efficiency and services of these outlets.

Continental Trade: China-Central Asia-Europe

The prospects for continental trade may also be of direct benefit to the EU itself, especially in its trade with China. In comparison to the sea journey from China to Europe which takes 20 to 40 days, cargo on railway from Lianyungang to Rotterdam via Central Asia could cut transport time down to a startling 11 days according to the Asian Development Bank (ADB).³ The so-called 2nd Euro-Asia land bridge also promises to create a competitive and direct trunk highway from China to Europe through Central Asia. To realize this potential, existing trade impediments need to be tackled where corruption, excessively bureaucratic procedures, and lengthy waits at borders are most troubling. In the near future, trade between China and Europe will exceed \$300 billion per year,⁴ and stifling congestions at Chinese ports combined with increasing freight rates for maritime shipments have led Chinese producers to look for alternative overland trade routes. But by far the biggest relative gains for Central Asian economies will accrue as transit revenues start pouring in and infrastructure is improved. Of the European countries, Germany is the one that has been pushing most for the development of continental trade. This has been manifested both with the launch of a transcontinental container train that runs from China to Germany and a Memorandum signed between Russia, China and Germany on continental railway freight. Yet the Central Asian states should be more involved and more efforts should be directed to raise the efficiency of the second Euro-Asia land bridge as this corridor provides the shortest route from China to Europe. The Central Asian states have already expressed great interest in this corridor, and the former Kazakh Prime Minister Danial Akhmetov launched a feasibility study to improve the Kazakh section of the China-Europe link in October 2006. Central Asia has also the potential to be an important stop-over and transit point for continental cargo flights. FedEx's use of Almaty as a regional hub and stop-over point since 2003 for continental cargo flights China-Europe is one example of this.

The assistance given to the Central Asian states by the EU in exploiting these opportunities have not been as substantial as it could be and the mutual gains that both Europe and Central Asia could reap from continental trade stretching to China, Southeast Asia and South Asia are not mentioned in either the 2002-2006 or the 2007-2013 draft strategy. The ignorance of Afghanistan's role in Central Asia's development and the tendency to consider Russia and Europe to be Central Asia's sole natural trading partners is also a troubling aspect. As the draft strategy for 2007-2013 notes: "In spite of its geographical position as a bridge between Asia, especially China, and Europe, Central Asia has in reality been integrated into the broader sphere of European politics, culture, trade, and economics for several centuries... Latent mistrust between Central Asian neighboring states means that individual governments are investing in costly new transport links rather than using their limited financial resources to upgrade existing links that provide vital connections to foreign markets (notably the ENP

³ See: ADB, *Xinjiang Autonomous Region, PRC: Trade Facilitation and Customs Cooperation Project*, Draft Technical Assistance Consultant's Report, November 2005, p. 30.

⁴ See: "China-EU Trade Expected to Top US\$200b in 2005," *Xinhua*, 7 January, 2006, available at [<http://www.china.org.cn/english/2006/Jan/154406.htm>].

countries, Russia, and the EU).” There should be no doubt that the EU and the CIS provide important markets for Central Asia, but a strategy aimed at development and poverty reduction in Central Asia should also explore market opportunities that have the most potential but are least developed. Solely restoring existing infrastructure means a continued dependence on Russia since the bulk of these routes are directed through its territory.

The forthcoming strategy’s heavy promotion of intra-regional trade and frameworks like the Eurasian Economic Community also promise to be counterproductive. This is not only because the Central Asian states in the main lack trade complementarity but also because of its effect on other trading partners. For example, a recent study by ADB suggests that Kazakhstan, Kyrgyzstan, and Tajikistan are particularly vulnerable if the EurAsEC customs union is implemented due to its effect on extra-regional trade. For Kazakhstan the cumulative shortfall would reach almost \$10 billion translating into a GDP which is 20.8% smaller by 2015 compared with the baseline scenario. It should be acknowledged that the EU places much emphasis on WTO membership for the Central Asian states (which would make EurAsEC redundant). Yet to exploit the full benefits of WTO membership, trade should be pursued in all directions and determined by current complementarity rather than historical conquests and old thinking.

Energy and the Role of Turkey

By far the most perplexing aspect of the EU’s Central Asia policy is the slow pace by which the EU has failed to assert and pursue its interests with regards to energy. For example, in the strategy for 2002-2006, it is merely stated that the EU “will take an interest” in Caspian and Central Asian energy resources rather than acknowledging its strategic value both for the EU and Central Asia. Clearly, those forces within the EU who had not recognized these interests by 2006 could not continue to remain indifferent as Russia cut gas-deliveries to Ukraine, highlighting the EU’s energy insecurity, Russia’s slide away from the West, and its use of energy as lever on its neighbors. As such, in the draft strategy for 2007-2013 it is appreciated that energy supplies from Central Asia will be of “special concern” to the EU and “play an important role in ensuring the EU’s energy supplies.” Although Russia’s price hikes to its neighbors may be positive as it may push them closer to Europe, it also illustrates the vulnerability of the EU.

Indeed, with 46 percent of the EU’s gas imports coming from Russia, this marks an urgent need for diversification in order not to end up in the position of Ukraine; resource-rich Central Asia and the Caspian appear as attractive options. This was also seen in the end of 2006 as Kazakh President Nursultan Nazarbaev visited Brussels and signed a Memorandum of Understanding with the EU on energy cooperation. Much interest has also been put in exploring all potential routes and means to transport energy supplies from Kazakhstan across the Caspian to tap into the European energy-infrastructure. The advantages are numerous and are not unidirectional. The Central Asian and Caucasian states have substantial potential gains to make by escaping the sole Russian option. Indeed, much of the oil and gas from Central Asia is already flowing to the EU but transiting Russia with a Russian surcharge, a Russian control of pipelines, and the option to cut downstream oil and gas supplies to Europe if it so wishes. As such, the Central Asian states are not only underpaid but the EU jeopardizes its own energy security at the same time as the ability of the Central Asian states to exercise their sovereignty and explore other options are undermined. However, with the launch of the “Baku initiative” in 2004 at the EU-Black Sea-Caspian Energy and Transport Ministerial Conferences, the foundation to supplementary energy corridors was laid.

When creating more direct routes for Caspian and Central Asian energy to Europe, Turkey will become a hub in this east-west energy corridor. The inauguration of the Baku-Tbilisi-Ceyhan pipeline and the Baku-Tbilisi-Erzurum pipeline, both running from Azerbaijan to Turkey where they link up with Europe's pipeline system, have already brought the first progress to this goal. This is also an argument in favor of stronger engagement between EU and Turkey and a reason as to why Germany should ease its comparatively tough demands on its membership process. Further engagement with Turkey is not only a critical link to Europe's future energy supply but it could also act as a role model for the Central Asian and Caucasian states in forming state systems promoting moderate Islam and pragmatism rather than extremism. Turkey will also have a lever over other Muslim countries which are substantially greater than any other European country possesses. Turkey is already engaged with the Central Asian countries in the "Leaders of Central Asian Countries Dialog" including Kyrgyzstan, Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan and this dialog could be an important link between Europe and Central Asia although it should be acknowledged that there are strains between Turkey and the Central Asian states as well. Similarly, even if the relationship between Turkey and Iran has had its ups and downs, Turkey enjoys an amount of trust among Iranians which goes beyond that of any European power. Considering Turkey's close ties with both the U.S., Europe, and Iran, Turkey may in this role also act as a bridge in the troubled U.S.-Iran relationship and when finding a solution to Iran's nuclear proliferation.

Engagement with Governments, Parliaments, and the Promotion of Democracy

Being a secularist and democratic Muslim nation, Turkey may also act as a role model in promoting these values to the wider Central Asia. But the EU's priorities in these matters shift frequently, remain ambiguous, and present something of a paradox. On the one hand, democracy has in the past tended to be stressed as an overarching strategic aim of EU's concerns for Central Asia. The strategy for 2002-2006 stresses for instance that "promoting democracy, human rights and reducing poverty are the only means to ensure long-term stability in the region." Yet in pursuit of this strategic objective, few efforts have been directed to strengthen the reformist forces within governments and parliaments that might promote this. There has also been a tendency to overestimate the potential in civil societies as engines of change. For example, the Tulip Revolution and the unstable political development that has been seen in Kyrgyzstan since, illustrates how long-term stability might come from incremental change and change of political cultures rather than from NGOs with unrealistically high expectations on rapid bottom-up democratic consolidations.

On the other hand, this faith in democracy-promotion as the chief driver of Central Asian prosperity and stability seem to have given way to a slightly different approach in the draft 2007-2013 strategy. Here it is stated that: "It is the EU's firm belief that the first priority of assistance must be to help each of the five Republics to eradicate poverty, and to improve the living standards, education and job opportunities of their respective populations. In this way, the EU will enable the states of Central Asia to complete their political and economic transition, and thus to consolidate broader values of democracy." Even if this slightly revised set of priorities reflects an ambition to change toward a strategy where democracy will be promoted incrementally in tandem with economic development, there is still a need for the EU to revise its existing actions in promoting democracy in the region. At the moment the EU's strategy plays directly into the hands of Russia and China, potentially reversing the few

democratic developments that have been achieved. Neither China nor Russia has an interest in promoting democracy, rather both see great benefits in strengthening authoritarian anti-Western forces in the governments and parliaments.

A primary concern for the EU here should be to strengthen existing programs that engage reformist forces within parliaments. Some cooperation has been established within the EU Parliamentary Cooperation Committee and its joint sessions with Kazakhstan, Kyrgyzstan, and Uzbekistan. But this cooperation needs to be expanded and more prioritized. Much could be learnt from already existing bilateral engagements of the EU member states. The EU may favorably follow the initiative of such countries as France who has cooperation in place between the French Senate's administration and Uzbek Oliy Majlis' (parliament's) Senate. This is the best way to promote democratic transition, transparency, and a culture of professionalism. If the EU fails to engage further in these endeavors Uzbekistan and other Central Asian countries are guaranteed to be influenced by other actors with lower democratic standards. China, for instance, has a similar program in place between the National People's Congress of China and the Oliy Majlis.

Finally, the failure of the EU to objectively assess the violence that erupted in the Uzbek town of Andijan in the summer 2005 also contributed to a lack of faith in EU's support for counter-terrorism in the region. Rather than acknowledging that a group of armed insurgents indeed threatened the very integrity of the Uzbek state, the EU's reaction focused one-sidedly on the large number of civilians caught in the crossfire and the death-toll that ultimately was claimed. There should be no doubt that Uzbek security-forces' and the Interior Ministry's handling of the situation should be subject to criticism and investigation, but the question posed by the EU (and the West) neither related to what could have provoked this excessive use of violence nor listened to the Uzbek government's explanation. Rather, the West chose to cut off all ties on the basis of reports issued by Western NGOs and media, many of which hardly can be said to conform to the most basic standards of objectivity. Apart from ensuring that similar incidents will happen again if assistance in reforming the Uzbek Interior Ministry and its security apparatus is denied, the message to fundamentalist groups operating within Central Asia or with support from Afghanistan is that they will escape scrutiny and that liability one-sidedly will be placed on the government.

The first thing the EU should do to heal the wounds of Andijan is to lift the travel-bans and sanctions imposed on Uzbek leaders. This is not only because the sanctions failed to distinguish between reformists and more authoritarian elements repressing what few liberals the country has, but also because it will be difficult to change authoritarian practices when remaining disengaged. These sanctions were extended in November 2006 by the EU foreign ministers even though some promises emerged about a continuation of dialog with the resumption of the EU-Uzbekistan council talks the same month.

Bureaucratic Impediments

There are also bureaucratic factors and distinctions made that impede an effective coordination of policies. In the draft strategy for 2007-2013 a proposal was made to split up regional policy for the CIS into two separate strategies. On the one hand, a European Neighborhood and Partnership Instrument (ENPI) will be established between the EU and Armenia, Azerbaijan, Georgia, Moldova and Ukraine. Central Asia, on the other hand, will be consigned to some other entity labeled the Development Cooperation and Economic Cooperation Instrument creating an island in the center of Asia that neither is considered to be "Asia" nor part of the European "neighborhood". While the Central Asian states previously had the benefit to be treated on an equal level with the other CIS states the new policy

successfully eliminates even these hopes. It becomes all the more paradoxical when the forthcoming strategy states that the motives are to “prevent the emergence of new dividing lines in Europe” yet ignoring the creation of other dividing lines.

Despite the fact that more than one and a half decades have passed since the dissolution of the Soviet Union, the EU’s strategy toward Central Asia is still shaped along the lines of the former Soviet border. Rather than reflect current dynamics and recognize the security and potential economic interdependence of Afghanistan and Central Asia, the EU sticks to a view which is way past due. This is primarily reflected in the EU’s bureaucratic consignment of Central Asia as an appendage of Eastern Europe while Afghanistan is part of South Asia, effectively preventing any viable coordination and joint strategy for the greater region. To be fair, this tendency to be stuck in old thinking is not exclusive to the EU but is pervasive among the vast majority of donor countries, international organizations, and ministries. With the exception of the Asian Development Bank which includes China’s far-western region of Xinjiang, Afghanistan, and Azerbaijan plus the five Central Asian republics in its development strategy and the reorganization of the U.S. State Department where a new Bureau of South and Central Asian Affairs have been created, more or less all international organizations and states adhere to a Cold-War world-view or treat the five Central Asian republics as an appendage to Eastern Europe. Even worse, there has been a tendency to think of Central Asia not as constituent of independent sovereign states but as a unified region, no more no less. This has primarily been manifested with the grouping of Central Asia under a single Regional Strategy Paper from 2002 onwards while the remaining 7 CIS recipient states still enjoy the benefit of having their own individual strategy papers. Besides failing to formulate a strategy tailored to the needs of the individual country in question, this promises to undermine trust among the Central Asian governments as to the EU’s ultimate intention.

Germany’s Unique Opportunity

Germany today has a unique opportunity to alter the EU’s lethargic Central Asia policy and recognize the coinciding and integrated interests that Europe has in Afghanistan and Central Asia. The reactive nature of the EU’s policy needs to be changed to a more proactive role in the region and be strategic rather than ad hoc. Up until today, the EU’s policies have been shaped as reactions to external events, 9/11 and the “gas crisis” of Russia-Ukraine being the primary examples. The EU will fail to tackle the challenges of its energy security, Islamic radicalism, and narcotics problem if it does not adapt a long-term strategic view. Not to mention that the 6 month rotating presidency creates problems for Central Asian states as priorities might shift elsewhere as this period expires. This is something Iran knows all too well from its nuclear negotiations with the EU, and there is a need to reassure the Central Asian states, and indeed the wider region, of Europe’s long-term commitment. The EU also needs to escape its old thinking with regards to Central Asia’s dependence on Russia, and may favorably follow the examples of the ADB and the U.S. in reformulating policies.

The ADB (and now the U.S.) have been harbingers in attempting to explore the full list of opportunities available for Central Asia in all directions, not only toward Russia. As U.S. Deputy Assistant Secretary of State Evan Feigenbaum recently wrote in the *China and Eurasia Forum Quarterly* “the United States is promoting options and opportunities omni-directionally, but increasingly to the south because it is the least developed direction.” The EU does the opposite, ignoring emergent mar-

kets beyond the former Soviet Union and Europe while arguing for continued dependence on Russia. This is not only a self-defeating strategy when it comes to EU's ability to redirect Central Asia's hydrocarbon flows through the Caucasus and Turkey rather than Russia, but it also stalls the Central Asian countries development and access to world markets. Even if the EU may have an interest in keeping other large energy consumers such as China and India away from the Central Asian energy fields to gain a larger share itself, it is not in its long-term interest to limit Central Asia's options in a similar way as the Russians do.

On the basis of this the German leadership would do well in considering the following factors when adopting a new strategy for Central Asia covering 2007-2013:

1. The threat of Islamic radicalism should be taken seriously and assistance should be given to the Central Asian states in strengthening law-enforcement and far-reaching security sector reforms, especially in Uzbekistan.
2. Significantly more attention should be given to Afghanistan and its role in Central Asia's economy and security while continental trade in all directions should be promoted, not only to Russia and Europe.
3. Turkey could become the critical link for Europe's influence in Central Asia and cooperation with Turkey in these aspects should be redoubled.
4. Engagement with reformist forces in the governments and parliaments of the Central Asian states should be strengthened. The EU already has a program of inter-parliamentary cooperation and this should be strengthened as much as possible.

THE EU STRATEGY IN CENTRAL ASIA: SUCCESSSES AND FAILURES

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The European Union, one of the world's most successful integration projects, is inevitably analyzed by every expert who probes deep into the international trends of our time.

The union of 27 countries, with a population of about 480 million who produce about 28% of the world's GDP, has certain interests in

Central Asia even though the EU's geopolitical status has not yet been fully developed. The EU wants to see stable and democratic regimes with market economies in Central Asia that are guided by Western values and standards. This will reduce the region's conflict potential and its criminological impact on the EU in the form of

drug trafficking and illegal migration and improve the conditions in which European companies are functioning in the local economies and the energy sector.

To achieve this, the European structures use various instruments ranging from the TACIS and TEMPUS programs of technical assistance designed to promote structural and institutional reforms in the economic and legislation spheres, as well as in state administration and education, to the TRACECA and INOGATE programs of transportation infrastructure modernization and political support of the human rights organizations.

Energy is the central issue of the EU's economic interests in the Central Asian countries for the simple reason that political instability in the Middle Eastern countries, so far the main suppliers of energy resources to Europe, will obviously persist, at least in the mid-term perspective, while Europe's oil reserves will be exhausted in the next 15 to 20 years. This will make the Caspian one of the key fuel suppliers; in fact, a developed network of main pipelines and transportation infrastructure, together with integration of the energy systems of the EU and Cen-

tral Asian countries, will improve the system of Eurasian communications.

Europe's stronger position in Central Asia could balance American and Russian political influence in the region and promote closer economic relations. The EU is one of the largest customers of the Central Asian countries outside the CIS, while unified energy systems will guarantee energy exporters a stable market in the mid-term perspective.

The EU's successful integration experience is another important instrument of its political and cultural impact on other countries and regions, which made its integration patterns highly attractive outside Europe. Africa, Latin America, and the APR followed the EU models of inter-state economic and political integration more or less successfully.

Many states remain interested in the integration initiatives: Kazakhstan, in particular, betrays a lot of interest in some of the conceptual ideas, with the aim of overcoming the still existing contradictions for the sake of closer economic cooperation with its Central Asian neighbors and within the EurAsEC.

Impact of Domestic Political Factors on Foreign Policy

Institutional Development Trends in the EU

The failure of the EU constitution in France and the Netherlands in May and June 2005 and the torturous process of budget discussions ended in a crisis. A split in the EU became obvious; the two camps have different ideas about the alliance's future:

- Britain, Northern Europe, the Netherlands, and Eastern Europe want to see the EU as an economic alliance based on shared liberal economic principles.
- France, Germany, and Luxembourg want a stronger political component, wider powers for the supranational structures, and large-scale centralized redistribution of resources in the form of subsidies designed to unify the economic contexts in different countries.¹

¹ See: F. Lukianov, "Evropa vydokhlas," *Vremia novostey*, 20 June, 2005 available at [<http://www.vremya.ru/2005/107/5/127868.html>].

Britain refused to conduct a referendum on the constitution, while France and Germany want the ratification process to go on.

The East European EU members cannot agree on the issue either: the Czech Republic is on the British side, while Latvia, Estonia, and Poland support France and Germany in the hope of becoming part of the European core.

There is the opinion that the crisis was caused by the fact that the alliance's eastward expansion cost the EU its global development aims, while the European politicians proved unable to offer other strategic landmarks either in the economic or in the political fields.²

The deepening crisis of the EU institutions might worsen the already existing contradictions and the already obvious split into two camps: the countries that regard Europe as a liberal economic alliance, on the one side, and the countries that regard Europe as a political project rooted in European values and traditions, on the other.

The budget crisis and the negative attitude of the European voters to the new members casts doubts on the EU's further expansion; however, Bulgaria and Rumania did join it in 2007 as planned.

Today, future expansion looks vague. It will take Turkey and the Balkan countries some 10 to 15 years to join the EU, while EU membership for Ukraine and Georgia is possible in the mid-term perspective. Charles Jenkins, Regional Director for Western Europe, Economist Intelligence Unit, has pointed out that rejection of the European constitution was mainly due to the negative image of the new members responsible for much stiffer competition on the labor and investment markets.

"Privileged partnership" is one of the possible solutions, which presupposes economic integration without political or economic rights of the full members (privileged partners will be excluded from decision-making, while labor migration will be limited). Many of the European experts believe that future candidates should be offered this status, Turkey among them.

At the same time, European politicians realize that there is no other force on nearby territory capable of shouldering comparable responsibility. This explains why the EU regards expansion of its sphere of influence as one of its foreign policy aims. Without a common army and with a still fairly ineffective common foreign policy, the EU relies on its economic and cultural attractiveness as foreign policy tools.

The Balkans present the most serious problem. The EU June 2003 summit in Thessaloniki promised EU membership to the local countries if they prove able to cope with their domestic troubles and fit the "Copenhagen criteria."

The Balkan countries need EU membership for economic and constitutional reasons. The Central European and Baltic countries that joined the union a year ago felt the benevolent influence of future membership in the juridical and state development spheres, to say nothing of the economy. The old EU members (especially those bordering on the new members) also profited to a certain extent. The positive impact, however, was too limited to affect the entire structure.

If the expansion process slows down, or if it is revised, the EU will prove unable to retain its important role in the security sphere. This will create a vacuum and add weight to the United States not only in the Balkans, but to an even greater extent in Turkey and Ukraine; its influence may spread to EU territory. The weak EU institutions might cause a lot of political trouble for the European countries and the United States as the EU's key partner. Instead of using the EU's resources when dealing with global problems, America will have to spend its own resources to sort out European problems.

² See: T. Bordachev, "Evrosioiuz: krizis doveria i razvitiia," Fond "Liberal'naia missia," available at [<http://www.liberal.ru/libcom.asp?Num=176>].

EU Ideas about the Security Threats

The European Security Strategy (ESS) adopted in December 2003 outlines the EU's new approaches to world security.³

The document points to America's decisive contribution to European security and describes U.S.-EU cooperation in this sphere as a guarantee of EU security.

European experts are convinced that large-scale military aggression against the EU is next to impossible; in the near future Europe will have to cope with several new security challenges:

- Dependence on energy resources delivered from the Gulf, Russia, and North Africa;
- Terrorism linked to violent religious extremism;
- Proliferation of WMD (biological weapons and missile technologies);
- Regional and domestic conflicts in all corners of the world; civil wars and collapse of state institutions in Somalia, Liberia, and Afghanistan;
- Organized crime and related threats: drug and weapon trafficking and illegal migration.

As distinct from the Cold War threats, none of the new threats is of a purely military nature; none of them can be eliminated by force of arms. They call for comprehensive political and economic pressure, as well as intelligence, police, and legal instruments.

Expansion adds security to the EU; by the same token, the alliance is brought closer to the crisis regions. This means that the EU needs a belt of democratic and prospering states in the East.

The European Union has concentrated on several key regional problems beyond its territory, but which are extremely important for its own security:

- Extended involvement in the Southern Caucasus;
- Settlement efforts in the Arab-Israeli conflict;
- More active relations with the Arab world.

The expert community has repeatedly pointed out that the EU should seek a greater role in world politics. With a common defense budget of 160 billion Euros, EU members can and should be ready to be involved in several synchronous operations. They should not so much tidy things up after a crisis as try to prevent crises in the first place. The EU leaders are convinced that crisis prevention may help to avoid conflicts.

Experts believe that the EU should build up its diplomatic potential and integrate the systems and resources of its members into the EU's common structures. The same should be done in relation to NATO. I have in mind the Berlin Plus agreement that allows the EU to draw on some of NATO's military assets in its peacekeeping operations. The two structures are obviously drifting closer, thus strengthening trans-Atlantic contacts.

Why It Is Hard to Achieve a Single Foreign Policy

- *The strongest EU members prefer to follow their own foreign policy lines; the European integration institutions are listened to, but not obeyed.*

³ See: European Security Strategy "A Secure Europe in a Better World," 12 December, 2003, available at [<http://ue.eu.int/uedocs/cmsUpload/78367.pdf>].

The deep disagreements over the U.S. and U.K. policies in Iraq (2003-2004) revealed that in the foreign policy sphere the EU had not yet become a single whole. The key EU foreign policy official, the High Representative of the EU for the Common Foreign & Security Policy (CFSP)—Secretary General of the EU Council—is a coordinator with essentially no power.

- *The ineffective and complicated process of decision-making, which requires coordinating the opinions of 27 EU members.*

The EU is administered by a great number of supra-national institutions (the European Union, the EU Committee of Ministers, and the European Commission) with interests of their own, which in many respects differ from those of the largest and most influential members. On the one hand, the national governments prefer to act cautiously when transferring their foreign policy power to supra-national structures; while on the other, the countries disagree on many foreign policy issues and specific international problems.

While France and Germany, the countries that started European integration, are more concerned with closer cooperation in international relations, the U.K., Denmark, and the Netherlands are less enthusiastic. They, and the neutral members (Ireland, Austria, Sweden, and Finland), are even more cautious about the projects of relatively greater EU autonomy in the defense and security spheres. They are convinced that if realized they might cripple the EU alliance with the United States. The members drifted even further apart when, in 2004, the EU welcomed new members, which are even more willing to side with Washington rather than with Paris or Berlin when it comes to their security. In military matters, the Central and East European countries look to NATO rather than to the EU.⁴

- *To a great extent the EU's foreign policy potential is limited by contradictions between the members and the supranational institutions.*

They crop up in the foreign policy sphere as a reflection of national foreign policy stands and in the agenda related to changes inside the EU. Budget support of common foreign policy is another controversial issue.

According to certain experts, demographic dynamics in the European countries is a factor that interferes with foreign policy decision-making in the EU as a whole. The number of Muslim immigrants from the Middle East is growing at a fast pace: the West European states depend for their continued prosperity on cheap labor from the Islamic world, which means that the immigration laws cannot be tightened.

Muslim immigrants live in closely-knit communities in German, French, and British cities; those who have obtained European citizenship remain loyal to their homeland, with which they maintain close ties, and to the Islamic world as a whole. Over time, the communities that enjoy financial support from their wealthier members, who are integrated into the political and economic elite of the host countries, gain more weight. They are strong enough to influence election results and lobby their interests in the corridors of power. This explains the negative response of the more developed EU members to any threat of worsened relations with any Islamic country or organization.⁵

- *The EU countries are doing their best to play an important role in international relations; they prefer diplomatic tools and indirect methods, particularly registering human rights violations. Its leadership in the human rights sphere allows the EU to put pressure on other countries.*

⁴ See: M. Troitskiy, "Evropeyskiy soiz v mirovoy politike," *Mezhdunarodnye protsessy*, available at [<http://www.intertrends.ru/five/004.htm>].

⁵ Ibidem.

The EU's successful integration experience is used as an effective tool of cultural and intellectual impact on other countries and regions. This added popularity to the European integration patterns outside Europe. Africa, Latin America, and the APR followed in the EU footsteps in the economic and partly political spheres with different degrees of effectiveness. The North American Free Trade Association was a response to mounting European competition.

Those countries that are interested in integration initiatives are attracted by the EU integration experience. Kazakhstan, in particular, found interesting some of the conceptual ideas about how to overcome contradictions in order to move forward toward closer integration with the EurAsEC and the Single Economic Expanse in particular.

The EU is fairly influential in the WTO; it is actively using its procedures to resolve trade disagreements within this organization and to protect its interests when dealing with the United States. The Europeans never miss a chance to oppose discriminatory measures, Washington's favorite tool, as contradicting the WTO norms and rules. As the world's largest trade bloc, the EU controls 27 votes within the WTO, which gives it huge advantages.

Despite its vast organizational potential and its size, the EU avoids using force and prefers other methods when it comes to regulating international relations.

This is explained by the fact that the EU is not a "full-fledged" entity of international policy. It is a large and influential actor on the world political scene, which has not yet become a super-state, but has every chance of becoming one.

The EU's military structures are too weak to allow it to realize its ambitions as an international leader outside its cooperation with the United States and NATO. In fact, the EU leadership's potential is crippled by the different strategic cultures of the U.S. and Western Europe. Protected by the United States, the EU developed a taste for peaceful settlement of international conflicts, the limited use of force in international relations, multisided diplomacy, international law, and economic influence.⁶

Energy and Oil-and-Gas Cooperation between the EU and Central Asian Countries

In the mid-term perspective, oil and petroleum products will obviously retain their dominant role in the world economy. Energy security and development of the centers of world economy are largely determined by the availability of reliable energy sources. It should be added that while the developed countries consume the largest volumes of oil, it is extracted in a relatively small group of developing countries and countries with transition economies.

The EU, as one of the largest energy consumers, needs to keep its economy going, which increases its dependence on energy resources.

Today, most of the energy resources consumed come from the Persian Gulf; the structure of the EU's energy imports cannot be described as diversified (Fig. 1): the bulk of energy resources consumed in the EU members comes from OPEC members, mainly those found in the politically unstable Persian Gulf; two of them—Iran and Libya—are accused of supporting international terrorism.

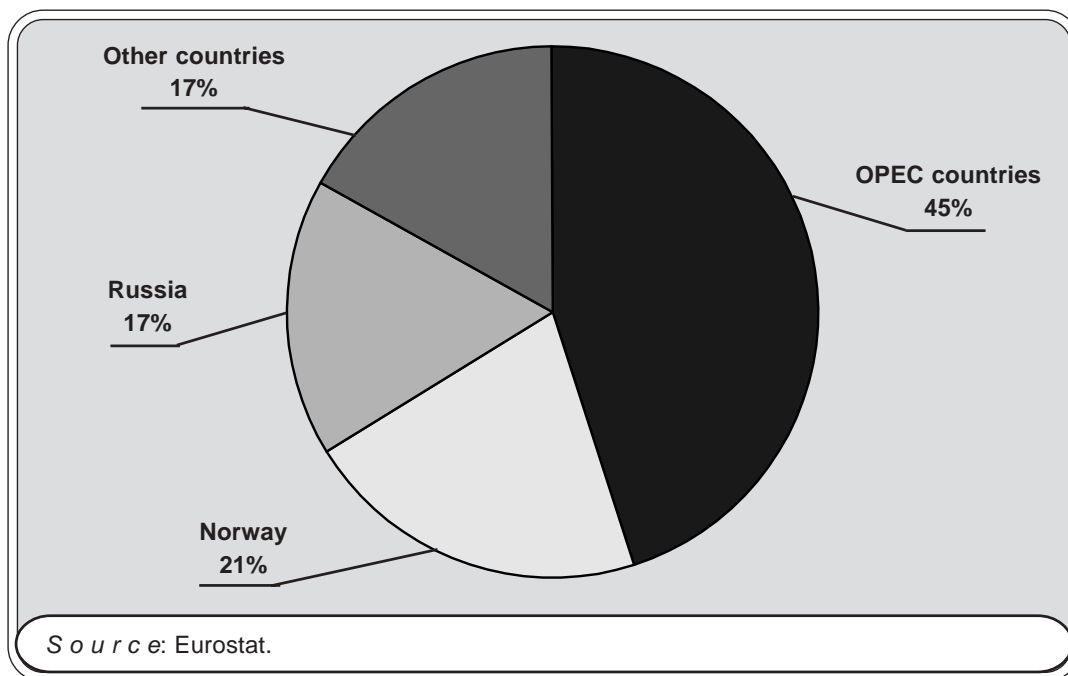
Each domestic or foreign policy crisis endangers the delivery of energy resources to the EU.

Being aware of this, the EU leaders are working toward diversifying its energy sources to avoid dependence on any region or group of countries. The Single Energy Policy program will extend cooperation among the EU members to the energy sphere.

⁶ See: M. Troitskiy, "Evropeyskiy soiuz v mirovoy politike," *Mezhdunarodnye protsessy*, available at [<http://www.intertrends.ru/five/004.htm>].

Figure 1

Structure of EU Oil Import in 2005



The unbalanced structure of oil import is not the only EU headache: the North Sea oil fields (in Britain and Norway) are on the decline. Today they supply only 20% of energy resources used by the EU.

The Caspian energy resources cannot compete with the Gulf reserves and will not completely replace Gulf oil; yet the Caspian is one of the world's richest regions; its energy reserves are the largest among those discovered in the last few decades. Its geographic location will make it a possible answer to the diversification problem.

The high quality of Caspian oil and the relatively low cost of prospecting and extraction are increasing the interest in the region and its resources.

Under the already existing projects, oil will be transported through the functioning pipelines—the Druzhba oil pipeline to oil refineries in the Czech Republic and Germany. This network will be extended to bring more oil to Germany and Austria and to the German North Sea ports.

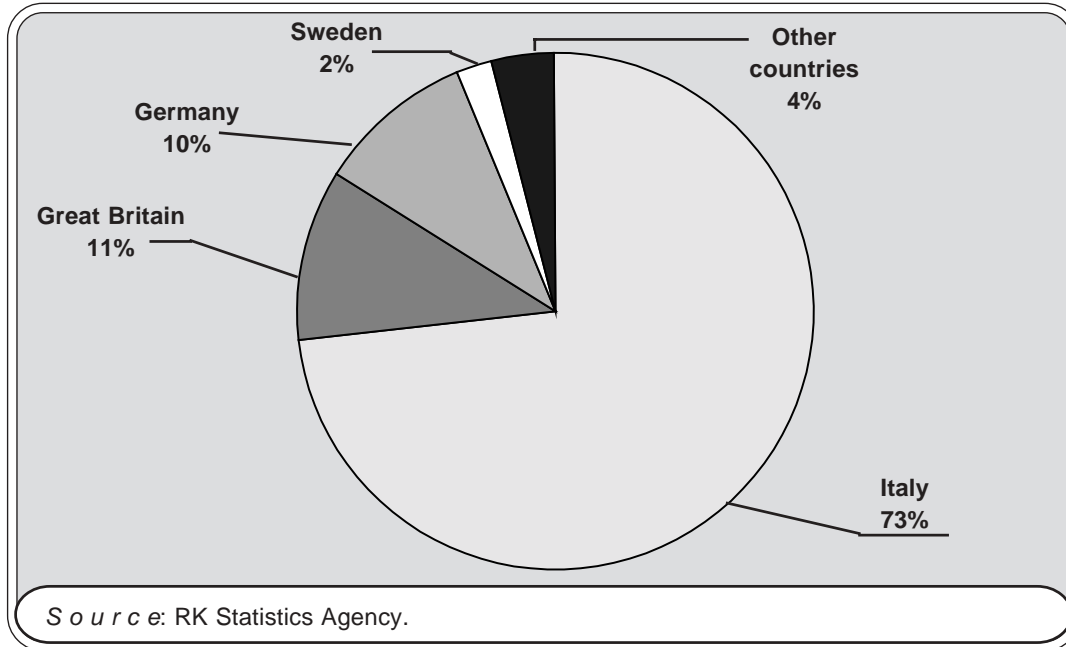
Today, practically all the largest European oil and gas companies are working in the Caspian—Shell (the Netherlands), TotalFinaElf and Schlumberger (France), ENI and Agip (Italy), British Petroleum and Lasso (Britain), REPSOL (Spain), Wintershall (Germany), Petrom (Rumania), and Statoil (Norway). According to different sources, they control up to 60% of oil production because only Western corporations are rich enough to invest in the production and transportation infrastructure in the first place.

Italy is the main consumer of Kazakhstan's energy resources among the EU members: it consumes about 70% of the total volume of export to the EU (Fig. 2).

The EU should obviously try to diversify its oil imports; today it buys about 20% of the oil and gas produced in Kazakhstan. European oil companies are involved in all the largest projects in the Republic of Kazakhstan, such as Karachaganak, KPC, and the development of energy resources in the northern Caspian.

Figure 2

**Structure of Consumption of
Kazakhstan's Exported Energy Resources
in the EU Countries**



The European Union is involved in energy projects in other Central Asian countries: the development of gas fields in Turkmenistan in particular: Lasmo of Britain works on the Burun gas field; TotalFinaElf, British Petroleum, Shell, and Statoil are involved in developing large fields (Gunashli, Chirag-Azeri, Shakh Deniz, and Serdar (Kiapaz) in the Azeri and Turkmenian sectors of the Caspian.

Trade and Investments

The EU is one of the largest trade partners of the Republic of Kazakhstan. According to the preliminary estimates for 2006, the EU's share in the republic's trade turnover was 26% of export and 17.9% of import. In 2004, the EU was the main importer of Kazakhstan's products; its share (26%) was higher than Russia's (14.7%) (Fig. 3).

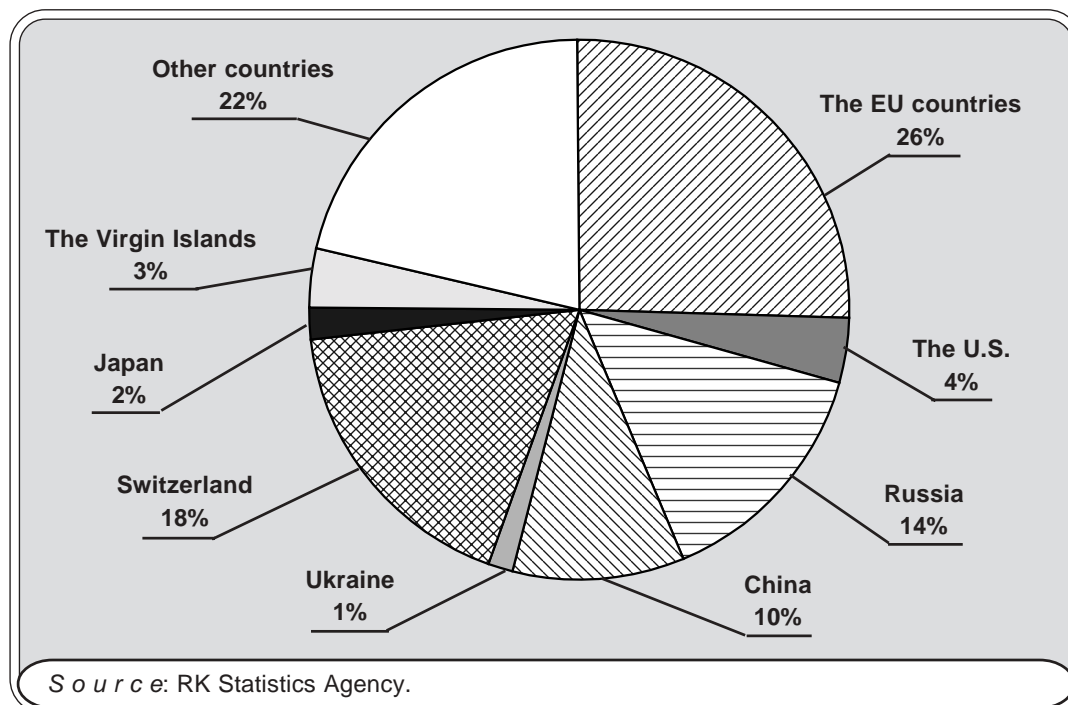
The EU countries export raw materials (oil and oil products, ferrous and non-ferrous metals) from Kazakhstan, which account for about 90% of Kazakhstan's export to the EU.

Access to the European steel market and revision of the EU protectionist measures in relation to the steel produced in Kazakhstan are still pending issues.

Kazakhstan imports processed and high tech goods: machinery, equipment, and transportation means. Kazakhstan's import is much more diversified than its export; the volume of import from the EU countries is increasing.

Figure 3

Kazakhstan's Export Structure in 2004



EU Political Interests in Central Asia

As a structure politically involved in Central Asia, the EU is extending its political influence in the region.

The Strategy Paper 2002-2006 for Central Asia⁷ outlines the EU's main political aims in the region. The document describes the EU as one among several players on the regional scene with the strong interest in promoting the region's peaceful and sustainable development; it is prepared to assist the Central Asian countries in their pursuit of sustainable economic development and poverty reduction.

The document points out that close economic integration among the local countries, or removal of trade barriers in relations with the world centers, would take time and require the concerted efforts of several countries.

The EU and Central Asia: Strategy Paper 2002-2006 describes several tasks, the fulfillment of which will extend EU political influence in Central Asia:

■ To Promote Security and Conflict Prevention

The EU has a strong interest in preventing Central Asia from becoming a zone of conflict, a haven for terrorism or a major provider of terrorist financing.

⁷ EU Strategy Paper 2002-2006 & Indicative Program 2002-2004 for Central Asia, available at [http://ec.europa.eu/comm/external_relations/ceeca/rsp2/02_06_en.pdf].

Central Asia is the main transit route to Europe for drugs produced in Afghanistan, and a major source of trafficking in small arms and human beings. Nuclear safety and environmental security are also of concern.

The EU will also provide assistance to the region in accordance with its decision to assist third countries to implement U.N. Security Council Resolution 1373 against terrorism.

■ To Eliminate Sources of Political and Social Tension

The European experts are convinced that promoting democracy, human rights and reducing poverty are the only means to ensure long-term stability in the region. In view of the above, the EU will support reforms aimed at establishing good governance, the rule of law, functioning civil societies, respect for fundamental freedoms and other OSCE values.

At the same time, the EU will work to reduce poverty in the framework of national Poverty Reduction Program and social inequality, targeting the most vulnerable, improve access to education, health services and to establish adequate social safety nets.

■ To Improve the Climate for Trade and Investment

The creation of open, rule-based market economies, attracting revenue from trade and FDI is a precondition for economic growth and improved standards of living in Central Asia.

As a large provider of investments, services and equipment, the EU already has sizeable economic interests in Central Asia. The EU will therefore work to promote further legal, institutional, administrative and structural reforms, aimed at supporting sustainable economic transition, which is a prerequisite for poverty reduction.

Late in March 2007, the EU Troika met in Astana and negotiated with the foreign ministers of the Central Asian countries. It was decided that the next meeting would discuss the EU's new regional strategy for the short-term perspective.

The European political community is convinced that stable democratic secular regimes in Central Asia and the Southern Caucasus will help to create a security belt of sorts to protect Europe against the unstable Islamic regions. There is apprehension in the EU expert community that radical Islam, as well as clandestine Islamic religious organizations are infiltrating Europe through numerous Arab, Turkish, and other Muslim diasporas in the EU countries.

In their research papers and recommendations, European experts insist that the deliberations about the rivalry in Central Asia are exaggerated to some extent. The Western world, they state, wants nothing more than to help the local countries oppose the security threats. At the same time, the expert community is talking about more active European involvement in the Caucasus, the Caspian, and Central Asia.

There is the widely accepted opinion that Europe should strengthen the Central Asian states, while insisting on further democratization and protection of human rights. The EU will probably extend its assistance to Central Asia in the form of educational programs and support of human rights groups.

On the whole, there is no uniform opinion in Europe about whether Central Asia is important for the EU. It has its own interests there, particularly in the energy sphere. It is actively supporting its energy companies engaged in developing Central Asian energy resources to ensure stable oil and gas supplies.

The EU regards Central Asia as part of a much wider geostrategic complex that includes Russia and South Asia and as part of the problem of terrorism, WMD proliferation, international crime, and drugs.

- In **Kazakhstan**, the EU is resolved to assist the economic reforms, encourage wider involvement of the public in the political process, and achieve increased transparency of power structures at the national and local levels.

- The “Strategy” describes **Kyrgyzstan** as a source of the region’s water resources and points out that the country is plagued by economic problems, a high poverty level, ethnic distinctions, and a porous border with Tajikistan. These are described as potential security threats. Its water resources allow Kyrgyzstan to put pressure on its water-hungry neighbors, who need water for agricultural purposes. There is the threat of proliferation of radical Islamic ideas from Afghanistan and Tajikistan. European experts point out that the measures the country’s leaders are using to combat Islamic extremism should not be used to squash the political opposition.
- **Tajikistan** is one of the world’s poorest countries and the only Central Asian country in which ethnic, regional, and ideological contradictions led to a civil war. The EU is resolved to help Tajikistan implement macroeconomic reforms to reduce poverty and ensure stability. The European experts are convinced that if the reforms in this country fail, the situation in the region will inevitably worsen.
- Potentially **Turkmenistan** is a big player on the world energy market; so far it is a neo-Stalinist dictatorship that keeps all external actors at a distance. The first steps of the new president suggest that the regime might become more liberal. The European structures in Turkmenistan work in the agricultural and oil-and-gas sectors. On the whole, EU program documents indicate that the alliance is determined to become more actively involved in the upcoming changes.
- According to EU experts, **Uzbekistan** is the key to Central Asian security for demographic and social reasons. Its static political and economic system spells a threat to stability, while the state’s repressive policy in relation to the political opposition and high poverty level may trigger a serious social crisis. The EU should obviously encourage civil initiatives and till the soil for future economic and social changes.

* * *

The above has demonstrated that the EU remains dedicated to the idea of stable democratic regimes, the market economy, and Western values and behavior patterns in Central Asia. This is expected to lower the region’s conflict potential and reduce its criminal pressure on the EU in the form of drug trafficking and illegal migration. By the same token, the EU companies working in the region will acquire better conditions in all spheres, particularly the energy sector.

Today, three main factors are present in EU-Central Asia relations: EU eastward expansion, the fact that its influence is expanding to the post-Soviet expanse in Eastern Europe and a single European foreign and security policy. Most EU experts are predicting more active European policies in the Caucasus, the Caspian, and Central Asia.

In practical terms, the EU badly needs more diversified oil-and-gas imports, which can be achieved by integrating the Central Asian and Caspian energy resources into the European energy system. The EU also intends to block the drug trafficking routes that start in Afghanistan and cross Central Asia, as well as stem organized crime and international terrorism.

CHINA'S POLICY IN CENTRAL EURASIA: SPECIFICS AND PROSPECTS

CHINA'S CENTRAL ASIAN POLICY (*Based on Chinese Sources*)

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The Soviet Union and the socialist camp which have disappeared from the maps, the readjusted balance of global forces, and the five new independent states on China's western borders forced the PRC to change its foreign policy priorities. This should be done first in relation to Central Asia as a vitally important neighboring region on which China's political and economic security primarily depends. This explains Beijing's keen interest in Central Asian developments and its active efforts to spread its

influence there. The PRC has become an important actor with a lot of political, economic, and cultural clout.

As soon as the Soviet Union left the scene, the Chinese government recognized the independence of the Central Asian states, established diplomatic relations with them, set up scientific centers in Beijing, Shanghai, Lanzhou, Urumqi, and elsewhere, and mobilized enough scholars to study the region in depth and in detail.

China's Attitude to Post-Soviet Central Asia

In was back in 1984-1986, when the economic reform launched in 1978 yielded fairly good results, that China busied itself with formulating conceptual approaches to the world developments. Since that

time on, the press and the country's leaders have been insisting on the multipolar nature of the world's political environment. This approach was first officially formulated in May 1988 by the then Foreign Minister of China Qian Qichen (since 1998, deputy premier).¹ China's Central Asian policy formulated in the wake of the Soviet Union's disintegration has been described in detail in Chinese publications based on the fundamental studies of the region, namely *Zhongya yanjiu* (Central Asian Studies, Lanzhou, 1995), *Zhongguo he xin dili de Zhongya guojia guanxi* (China's Relations with the Newly Independent Central Asian States, Harbin, 1996), *Zhongya wuguo gaikuang* (General Situation in the Five Central Asian States, Urumqi, 1997), *Zhongya guoji guanxi shi* (History of International Relations in Central Asia, Changsha, 1997), *Zhongguo 1997—1997qianhou di zhengzhi jingji fenxi yu yuce* (China 1997: Political-Economic Analysis of the Period Before and Forecasts for the Period After 1997, Beijing, 1997), *Zhongguo yu Zhongya* (The PRC and Central Asia, Beijing, 1999), *Zhongya geju yu diqu anquan* (Situation in Central Asia and Regional Security, Beijing, 2001), *Zhongya wuguo shigang* (Concise History of the Five Central Asian States, Beijing, 2002), *Shanghai hezuo zuzhi—xin anquan guang yu xin jizhi* (The Shanghai Cooperation Organization—New Thinking and a New Security Mechanism, Beijing, 2002), “*Zhoubian diqu minzu zongjiao*” *wenti toudi* (A Glance at the Ethnic and Religious Problems of Neighboring Regions, Beijing, 2002), *Zhongya di diyuan zhengzhi wenhua* (Geopolitics and Culture of Central Asia, Urumqi, 2003), etc.

According to these publications Beijing took the following positive and negative factors into account when formulating its Central Asian policy.

The **positive** factors:

- The changed foundations of the political and economic relations between China and Russia;
- The transformation of the formerly Soviet border regions into a buffer zone of several states;
- The disappearance of military pressure on China that took shape under the czars and continued under Soviet power;
- The appearance of a vast market for Chinese products and the possibility of using the natural resources of Central Asia's independent states;
- The region's openness to China and the rest of the world when Russia lost its monopoly in these republics;
- The possibility of building another “railway bridge” between China and Europe to rid the former of its dependence on transit of European raw materials and Chinese export across Russia;
- The transformation of Central Asia into a politically and economically favorable corridor to Europe, South Asia, and the Middle East;
- The possibility of reducing the length of the border between China and Russia to a minimum;
- The appearance of a buffer zone formed by small, disunited, and therefore non-threatening states: Mongolia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan;
- The creation of favorable conditions for making large investments in XUAR.

There were also **negative** factors:

- The Central Asian states are populated by nationalities, whose diasporas live in China;

¹ See: O.L. Ostroukhov, “Vneshniaia politika Kitaia v gody reform i perspektivy ee razvitiia,” *Mirovaia ekonomika i mezhdunarodnye otnosheniia*, No. 3, 1999, p. 9.

- After acquiring their sovereignty, these states developed national self-awareness; nationalism based on national self-awareness strongly affects the sentiments of those who live in XUAR and other western regions of China;
- The Chinese leaders have to isolate the population of XUAR and other ethnic regions of China from kindred Central Asian nations to prevent the spread of separatist ideas;
- The post-Soviet political situation forced China to negotiate with the Central Asian republics to achieve stability in China's western regions, as well as to ensure timely interception of separatist activities of ethnic groups;
- The emergence in Central Asia of the threat of proliferation of the ideas of Islamic fundamentalism and unity of the Turkic peoples (pan-Turkism) that forced China to support the region's states to prevent the intensification of these dangerous trends;
- China, Russia, and the West share a common anti-fundamentalist position, but in its struggle against pan-Turkism China can cooperate only with Russia and Iran; the need to draw the Central Asian countries into these efforts has led to a new problem;
- Contacts between the Central Asian states and Taiwan should be prevented;
- The Central Asian peoples that have emerged as independent political forces might unite into a new alliance of Turkic peoples (history knows of such developments), which China should avoid at all costs;
- Central Asia has the possibility of producing nuclear weapons; if an alliance of Turkic-speaking states becomes a reality, or if religious fundamentalists come to power, China will find itself face to face with a serious threat. To avoid this, China must accept Russia's control in the region;
- Today Beijing has to protect XUAR more zealously than ever against the ideas of separatism, fundamentalism, and pan-Turkism by fortifying its borders and inviting the neighboring states to work together to settle the problem;
- Central Asia has become a region where the major powers are competing for their geostrategic and geopolitical interests; so far, China is not ready to join the rivalry;
- The United States regards Central Asia as a strategically important area; it will not hesitate to include it in its sphere of influence. This means that its growing influence will create greater dangers for China, therefore the latter must ally with Russia to oppose this process.

After comparing the pros and cons of Central Asia's impact on China, Beijing concluded that the new political and economic situation in the region is largely favorable. It formulated the following tasks:

- (1) Adjusting to the new geopolitical and geo-economic situation, pursuance of a scientifically substantiated and flexible foreign policy course in Central Asia;
- (2) Specifying the borders with the newly independent states, taking due account of the present geopolitical conditions and registering the delimited borders according to international law;
- (3) Establishing stronger confidence among the Central Asian nations: China should clearly demonstrate that it is not seeking monopoly or special privileges; it does not intend to compete with the countries already present in the region or which will be present in the future;

- (4) Convincing the governments of the newly independent states that closer ties with China should be treated as a priority. China should create conditions conducive to full-scale political and economic cooperation;
- (5) Preventing Central Asia's negative influence on China and the possible monopoly of third countries.

Xing Guangcheng has pointed out that the Central Asian states are tied to Russia economically, which allows it to control the region and the stability in it. So far, the local countries have not yet acquired an adequate material-technical and military base, while their borders are in actual fact guarded by Russians. Moscow is convinced that by guarding Central Asia's external borders it is protecting its own security. China does not want to see Russia's previous monopoly restored in the region, but it is convinced that it can be limited and that an alliance with Moscow against America's growing influence, the appearance of regional nuclear powers and a union of Turkic-speaking nations is possible. The events in Tajikistan confirm that Russia's temporary presence in the region has so far been inevitable.

Chinese scholars believe that China will be able to cement its position in Central Asia if the region is reliably protected against great power encroachments. They describe the region as a strategically important territory between Russia and China and conclude that the latter's obvious consolidation there might arouse Moscow's displeasure. Therefore, writes Xing Guangcheng, to remove the danger produced by the geopolitical situation, Beijing should seek an agreement with Russia and other interested states, on the one hand, and call on the Central Asian states to take China's interests into account and drop all efforts to support separatist movements in western China, on the other.²

The authors of *Zhongguo yu Zhongya* write that political stability in Central Asia will not only promote its sustainable economic growth, but also become an important factor of Central Asian security.³ On the other hand, some of the region's specifics might make it hard to revive its economy. The authors point to the following:

- Even though the region is rich in natural resources, it is divided into several states, each of which has its own specifics and possibilities. This makes it harder for them to integrate, as well as to combat their economic backwardness;
- As a predominantly Muslim region, Central Asia is open to Islamic influences and all sorts of religious trends;
- The region has been and remains multi-ethnic, which means that it is not free from ethnic contradictions that might be exploited by hostile forces;
- Different interests of the local states breed rivalry among their leaders; so far they have proved unable to put regional interests above national, which makes integration difficult;
- The region depends to a certain extent on extra-regional forces and neighbors.

The Chinese analysts have concluded that in view of the above, China does not want Central Asia to become Russia's backyard (*houyuan*). It does not want the U.S. to use the region as a containment instrument against China either. From this it follows that Beijing would prefer to see the region absolutely free from the leading powers' influence; it would rather use it to fortify its own position there. It would be logical to ask: What will happen to Central Asia, if China, with its huge demographic, military-political, and economic potential, strengthens its position beyond certain limits (especially if headed by ambitious leaders)? Any answer requires profound substantiation. Today, neither the

² See: Xing Guangcheng, *Zhongguo he xin dili de Zhongya guojia guanxi*, Harbin, 1996, p. 98.

³ See: *Zhongguo yu Zhongya*, Beijing, 1999, pp. 135-140.

Chinese academic community, nor anyone else can guarantee that such leaders will never come to power in China. Aware of such apprehensions, *Zhongguo yu Zhongya's* authors insist that China should first of all convince Central Asia that it may trust Chinese aims as a firm foundation for their future cooperation. To achieve this, the authors suggest:

- The Central Asian countries should be obligated to side with China on the Taiwan issue and to establish partnership in the security sphere;
- They should be drawn into a joint struggle against separatism and into joint efforts to build a solid foundation for future cooperation;
- China and the Central Asian countries should act together on the international scene to protect peace and insist on fair play;
- Modernization of the Great Silk Route should raise the interest in it among the Central Asian countries.⁴

When dealing with China's future policy in Central Asia, Chinese authors invariably point out that the region's countries are too young to have enough foreign policy experience. This makes them vulnerable to outside pressure. In the future, the region will not develop into a sphere of influence of one international force; it will preserve its foreign policy independence and will develop into a single organism. In view of this, China regards Central Asia as an independent and rapidly strengthening political pole. It maintains close ties with all the local countries and encourages their participation in cooperation on the Asian continent.

More than that, Beijing is aware of the region's role of a crossroads of political, economic, and cultural West-East contacts. Its destruction, instability, or domestic disturbances will threaten future cooperation among the Eurasian countries, in which China is especially interested. This explains its readiness to side with any initiative designed to preserve Central Asian stability.⁵

There is the opinion in Chinese academic circles that independence of the Central Asian states is guaranteed by the absence of monopoly of any power. Sun Zhuangzhi, in particular, has written: "Too often the region's independence and progress depended on the might of the large neighbors and their relations with the Central Asian countries. If any of the large states acquires absolute monopoly in the region it may lose its independence."⁶ He believes, therefore, that the republics of Central Asia should strengthen their ties with the developed states and influential international organizations, while retaining contacts inside the region.

In 2002-2003, the following collections of articles appeared in Beijing: *Quanqiu minzu wenti da jujiao* (The Globe's Most Painful Ethnic Issues) and *Shijie zongjiao wenti da jujiao* (The Most Painful Issues of the World's Religious Problems). They describe Central Asia as a zone of growing influence of pan-Islamism and pan-Turkism that might threaten China. The above-mentioned works treat pan-Turkism similarly.⁷

Their analysis reveals that the authors are mainly concerned with protecting China's interests and strengthening its position in the region; they are obviously not interested in developing industrial production, extending large long-term credits to promote the local countries' industrial advance,

⁴ See: *Zhongguo yu Zhongya*, pp. 135-140, 152, 155-170, 209-212.

⁵ See: *Ibid.*, pp. 39, 84-85, 151-152.

⁶ *Ibid.*, p. 39.

⁷ See: Xu Tao, "Fan tujue zhuyi xichao lishi fengxi" (Historical Analysis of the Ideas of Pan-Turkism), in: *Shize zongjiao wenti ds jujiao*, Beijing, 2002, pp. 90-110; Xing Guangcheng, "Zhongguo he Zhongya guojia: xin guanxi," *Dongou Zhongya yanjiu* (Research on Eastern Europe and Central Asia), No. 1, 1996, pp. 58-64; idem, *Zhongguo he xin dili de Zhongya guojia guanxi*, p. 101; *1998 nian Zhongguo jingji xingshi fengxi yu yuce* (Analysis and Forecasting of the PRC Economic Situation for 1998), Beijing, 1999, pp. 101-102; 139-140.

increasing their export potential and hard currency revenue, or alleviating unemployment. Everything what the Chinese businessmen are doing by setting up JVs and investing money in them speaks of their obvious reluctance to invest large sums, even though China has vast investment potential. The SCO is also keeping silent on investment issues and expanding the local production of consumer goods. This suggests that China is not yet ready to extend large-scale economic assistance to the Central Asian countries.

China's Economic Policy in Central Asia

All the Chinese leaders never failed to point out during their visits to Central Asian countries that China treats economic relations with them as a priority. The Chinese works mentioned above pay a lot of attention to this. Indeed, China's need for energy resources is growing, which means that the region's hydrocarbons widely discussed by the media all over the world are of prime importance to China.

At the same time, the economy is not the most important and not the only direction of China's foreign policy strategy. The PRC is taking all the external factors into account, particularly the Russian factor, for the simple reason that the local economies are closely related to Russia. Today China has no intention of confronting Russia or any other country on the Central Asian markets; it will not oppose Russia's interests unless its presence threatens China's security in the region. The same applies to any preferences of any Central Asian country within the CIS or on the international scene.⁸

The following Central Asian economic factors might prove important for China:

1. The territory serves as a transit for economic ties between China and Europe, South Asia, and the Middle East.
2. Central Asia is rich in natural resources: oil, gas, gold, uranium, cotton, etc; this attracts international forces and boosts its economic importance.
3. The newly independent states turned the region into a vacant and easily accessible market for Chinese commodities and a source of cheaper raw materials. Land transport communications offered more advantageous conditions for Chinese exports.
4. The sovereign Central Asian countries can now establish direct ties with the APR. Some of them (Japan and South Korea) have come to the fore. In these conditions, China, connected with Central Asia by a railway and highways, has become the most convenient and reliable link between Central Asia and the APR, which earns it additional money.
5. The region needs Chinese consumer goods.

The PRC demonstrates a specific pattern of economic revival, in which the state preserves public property as the country's economic basis. The newly independent states have shown a lot of interest in the Chinese experience of economic reforms. At the same time, they looked at China for support of their developing economies. This put China in the most advantageous position.⁹

After recognizing the independence of the Central Asian countries and establishing diplomatic relations with them, China signed a large number of treaties that serve as the foundation of economic ties; it opened airlines and simplified the visa regime for its and foreign nationals. Wholesale markets

⁸ See: Xing Guangcheng, *Zhongguo he xin dili de Zhongya guojia guanxi*, pp. 95-96, 300.

⁹ See: *Ibid.*, pp. 152-158.

were opened in Beijing and several border towns, customs dues for exported Chinese commodities and imported raw materials were either lowered or annulled, transportation services for export goods were established; much was done to repair and modernize highways and delivery means. The VAT return system has been operating in the export of goods by intermediaries since 1985.¹⁰ Many of the public and private producing companies acquired the right to export their products to Central Asia themselves. They got all or part of the paid taxes back depending on the share of exported products. For example, those that exported over 50 or 80 percent of their products retrieved half or the entire sum of the taxes paid. The producers could import raw materials or equipment on easy terms or free of charge.

This yielded good results: the country not only increased its export; the system allowed many small businesses, private businesses included, to export their goods. According to certain Chinese analysts, the strategic aspect of China's economic policy in Central Asia is moving ahead and shows good results, its tactics being readjusted according to the situation. Xing Guangcheng has written, in particular: "On the whole, the Chinese government has been pursuing a correct policy in Central Asia; it achieved good results; yet many of its specific elements deserve criticism."¹¹

He goes on enumerating the failures:

- It is wrongly believed in China that the Central Asian markets are undeveloped; many of those who trade there proceed from the assumption that "what is bought can be sold" and export low-quality goods in pursuance of quick incomes to the detriment of the country's image;
- For the same reason, some of the local administrators failed to stem the export of low-quality goods that undermined the prestige of Chinese products;
- There is the opinion that economic cooperation with the region's neighbors is possible mainly through China's western least developed areas;
- China miscalculated its competitiveness in the use of the region's natural riches and hoped to boost it by setting up production and processing JVs.

It is commonly believed in China that development of the Central Asian markets requires more profound knowledge of their specifics, historical, political, and economic factors. It should think about long-term perspectives rather than short-term advantages, and export better goods that are welcomed on the local markets or set up modern enterprises in western border regions of China. Xing Guangcheng has written in this respect: "In the short-term perspective, the export of low-quality goods has generated good incomes for certain enterprises. From the point of view of China's long-term economic cooperation with the region, this created serious difficulties."¹²

The Chinese leaders recognized the blunders and took measures to remedy the situation. This is indirectly confirmed by the Chinese academic community's enhanced interest in the economies of the Central Asian countries, testified by the above-mentioned publications. There is any number of works dealing with the specific aspects of the Central Asian countries' economies; post-graduate students and trainees from China visited Central Asian scientific centers.

All the Chinese authors agree that the local markets should be developed more actively; the business community agrees with this. There is every reason to believe, therefore, that today China is busy readjusting its economic policies in the Central Asian countries.

An analysis of what Chinese businessmen are doing in Central Asia shows that China is concentrating on short-term investments in the local economies and fast payback. Since China was not con-

¹⁰ See: *Renmin ribao*, 25 September, 1998.

¹¹ Xing Guangcheng, *Zhongguo he xin duli de Zhongya guojia guanxi*, pp. 152-153.

¹² *Ibid.*, p. 145.

cerned with developing local export-oriented industries and alleviating unemployment, the JVs became tools for selling Chinese commodities in Central Asia. They skillfully used the privileges extended to such ventures. The Chinese never tried to develop their enterprises by means of locally produced profits, so many of the JVs died young; it should be said in all justice, however, that they never lost money. In Uzbekistan, for example, the first Tashkent JV with China produced thermos flasks; in twelve months it repaid the original investments. In 1992-1993, the Xinjiang Thermos Flask Company, which founded the JV, reached a 240-million-yuan trade turnover (about \$30 million) and paid 19 million yuan (about \$2.3 million) in customs dues.¹³

Those Chinese companies that worked with shop tourists from Central Asia showed very good results: they not only earned good money, but also created a market for low-quality products of medium and small Chinese businesses. The state consistently supported these categories of businesses: they had no limitations and enjoyed tax privileges.

The authors of the works mentioned above have identified the following principles in the country's Central Asian policy as the main ones:

- Economic contacts based on market principles, which presupposed mutual benefits and an export-import balance;
- diverse cooperation forms, mutual settlements through banks, permission to all Central Asian countries to maintain trade and economic ties with all the Chinese provinces and cities;
- economic cooperation with the region adjusted to market demands and the possibility of complete as possible use of means and raw materials;
- consistent improvement of transportation conditions and highways;
- minimal financial material support of the local states as a token of friendship;
- multisided cooperation without claiming wider spheres of Chinese economic influence in the region.

Chinese political scientists seem to be convinced that by following these principles the PRC government is encouraging economic cooperation with the Central Asian states by offering favorable conditions and privileges, allowing private companies to be involved in export operations, and encouraging direct investments by large and medium companies.

Everyday practices of trade and economic cooperation between Central Asia and China demonstrate that the local market is still flooded with low-quality goods and that Chinese businessmen are reluctant to invest into export-oriented production. This is probably explained by the widespread fears that in the future developed local industries will squeeze Chinese products from the market.

The authors of *Zhongguo yu Zhongya* agree that Chinese companies are not enthusiastic about making large investments in Central Asian economies. They explain their passivity by the absence of state guarantees and the frequent amendments of the laws and Cabinet decisions, which are not strictly followed. On top of this, some of the Central Asian countries do not offer the possibility of drawing timely profit by the investors; and there are disparities in Central Asian and Chinese interpretations of how the market economy works.

Chinese experts believe that Central Asia is gradually revealing its specifics in its foreign economic policy. Its role does not depend on its own energy alone—it depends on the degree of cooperation with the rest of the world. Central Asia is moving closer to the southern part of the Muslim world, which might increase tension in the West and even infringe on its interests in the region. Closer contacts with Russia will make it harder for the U.S.-headed West to penetrate Central Asia

¹³ See: *Ibid.*, p. 134.

and will damage its economic interests. If Central Asia moves toward the West, Russia's interests will suffer.¹⁴ The above suggests that balanced foreign economic ties are an important goal that is hard to achieve.

The SCO: A New Mechanism of China's Increased Influence in Central Asia

Russia, China, and the Central Asian states share the strategic task of establishing a sustainable security system in the Central Asian region that will allow them to channel regional developments along preferred geopolitical channels.

In this context, the SCO should play the key role in dealing not only with regional political, economic, and ecological issues, but also with realizing their geopolitical interests in Central Asia. In any case, the SCO Central Asian members expect that it will cope with this task and justify their confidence in it. Meanwhile, this depends, among other things, on the geopolitical interests of Russia, China, America, and the European Union, as well the relations between the military-political and economic might of the first two countries.

The Chinese publications of 2002-2003 wrote that the SCO is trying to develop contacts with other states and international organizations: "The SCO is turning into an effective mechanism of regional security and stability."¹⁵ The collective work *Shanghai hezuo zuzhi xin anquan guang yu xin jizhi* (The Shanghai Cooperation Organization—New Thinking and a New Security Mechanism) describes the SCO as the most respected international organization of cooperation and security in Central Asia with good prospects,¹⁶ even though the "regional security" concept is multilateral. It includes encouraging local industries coupled with protection of the natural environment and new jobs and higher incomes for the local people. So far, China has not demonstrated any particular activity in these respects. In fact, the cheap Chinese consumer goods that have flooded the local markets are crippling local production. Under such conditions it is difficult to talk about the SCO's security potential.

Whether it will develop into the organization it claims to be depends on many internal and external factors. The SCO is the heir to the Shanghai Five, which united the countries that border on China. It was set up to settle the border issues inherited from the Soviet Union and encourage transborder trade. Uzbekistan, which does not share a border with China, was left outside the structure.

The new situation in the world and Central Asia forced the Almaty and Bishkek summits of the Shanghai Five (on 3 July and 24 August, 1998) to discuss the region's security, cooperation, and joint struggle against terrorism, religious extremism, separatism, and illegal trade in arms and drugs. By that time, Afghanistan had developed into a center of international drug trafficking and an al-Qa'eda base (which relied on the Taliban) that threatened not only Uzbekistan (very much worried by these developments), but also the entire region. Uzbekistan displayed its interest in the Shanghai Five, while the new situation urged all the international organizations, the Shanghai Five included, to pool forces to prevent the proliferation of terrorism and religious

¹⁴ See: R.M. Alimov, *Tsentral'naia Azia: obshchnost interesov*, Tashkent, 2005, pp. 104-106, 127-130, 150.

¹⁵ *Guoji zhanlue yu anquan xingshi pinggu 2002/2003* (Analysis and Forecasting of the State of International Strategy and Security), Beijing, 2003, p. 151.

¹⁶ See: *Ibid.*, pp. 168-232.

extremism.¹⁷ Uzbekistan joined the structure at its sixth summit (14-15 June, 2001), after which the organization acquired a new name—the Shanghai Cooperation Organization (SCO).

Today, the Central Asian countries are rapidly developing, albeit at different paces and under different conditions. All of them, however, need the support and understanding of the more developed countries. The domestic Central Asian markets have been filled with foreign consumer goods—today they need money, high technologies, and equipment to revive the local industries and increase their export. Any attempt at “import expansion” into the region might cripple the Central Asian economies and production, which will have a negative impact on the labor market and the local people’s purchasing power. Only the import-export balance can promote industrial growth. Under these conditions, the SCO should not only become the mechanism for regulating the process, but also cut short the ambitious plans of certain countries. Life has shown, however, that to successfully address its own social and economic problems, Beijing is building up production and increasing its export. This negatively affects not only regional, but also European industries. If continued this practice will hardly add stability.

There are other problems in Central Asia that should be addressed for the sake of greater stability: rational use of natural resources (including the transnational water arteries), better land transportation routes, unified tariffs on transit railway and highway transfers, better ecological conditions, etc. By the end of the 20th century, the joint railways of Turkmenistan and Iran created the second so-called “intercontinental bridge” that connected Europe with China via Kazakhstan, Uzbekistan, Turkmenistan, and Iran. Today, when the Turfan-Kashgar railway has been completed, it became possible to build an even shorter “bridge” between Kashgar and Osh. If resolved within the SCO and with its assistance, this will promote regional integration and strengthen regional security.

A common regional economic expanse, greater confidence, and cooperation among the Central Asian states are indispensable for their independence and security. Recently, the SCO has shouldered the task of ensuring regional security.¹⁸ The issues mentioned above coincided with SCO priorities. This means that it can be used for strengthening and deepening Central Asian integration indispensable for the local states’ progress.

Today terrorism, religious extremism, and illegal trade in arms and drugs have become an interconnected and global phenomenon, which means that the SCO alone will not be able to defeat them. This task calls for concerted efforts of all the international organizations and interested states (the United States, Japan, and the EU members in particular). This cooperation demands that the large powers seek at least shared interests in Central Asia. The West (the U.S. in particular), Japan, and South Korea have already shown their heightened interest in Central Asia, which is creating a new context in which the future of the region’s multisided development depends on whether geopolitical pluralism can be formed and the region’s openness to the world preserved.

Today, the rivaling group includes Russia, China, and the West (the U.S.). The first two are operating together within the SCO, even though they have different ideas about the security issue. The past suggests that the union will not be long-lived. As distinct from Russia, China has a vast population crowding in a relatively small area, which means that the different conditions in Russia are of an objective nature.

Overpopulation in China affected its foreign policy at all times in the past. So far it is hard to predict what will happen if China and Russia develop different ideas about regional policy, the

¹⁷ See: “‘Shanghaiskaia piaterka’: vstrecha v Dushanbe,” *Narodnoe slovo*, 4 July, 2000; “Tsentral’no-aziatskoe agentstvo politicheskikh issledovaniy: kommentariy k vtorzheniu islamskikh ekstremistov v Kyrgyzstan,” *Saiasat* (Kazakhstan), June-July 2000.

¹⁸ See: *Shanghai hezuo zuzhi—xin anquan guang yu xin jizhi*, Beijing, 2002, pp. 303-311.

economy, and energy, or if the balance of forces tips in favor of China at the regional or international level.

According to Russian experts, their Chinese colleagues are convinced that China has become a global power and is actively involved in worldwide decision-making together with the United States (this applies first and foremost to the continued global stability and order issue). In view of this, China is readjusting its policy in relation to Russia, the EU, and other countries. China regards the United States as its “strategic rival,” “potential opponent,” and “probable strategic partner,” while Russia has been given the role of ally in the Chinese-American rivalry. Chinese academics insist that despite its vast economic and military potential, China does not want to extend its territory and does not claim a civilizational mission.¹⁹ In Central Asia, these statements are fully trusted.

Meanwhile, Chinese goods have reached every nook and corner of the world; the number of Chinese emigrants is growing in every country, which means that China should maintain friendly relations with all the states and stay away from conflicts.

There is a widely accepted opinion that economic rivalry between America and China is accelerating. By 2020, China might outstrip the U.S. in terms of GDP volume (which in recent years has demonstrated a steady annual growth of 8.5-9.1 percent). In 2006, its GDP was \$2.65 trillion; the GDP increased by 10.7 percent.²⁰ If continued, in 2008 this pace will move China to third place in the world; it will outstrip Germany and will have only America and Japan ahead of it. In this case, China’s GDP will be over \$3 trillion. In 2005, the country left behind the \$2 trillion level, another important landmark, and pushed Great Britain from its fourth place.²¹

To forecast future developments, let’s have a look at the dynamics of Russian-Chinese and American-Chinese relations during the PRC’s 50 years of existence after its formation. At first the republic regarded the U.S.S.R. as the only guarantee of its development; when in the mid-1960s the Soviet Union refused to support Beijing’s nuclear ambitions, China turned to the United States and allied with it in its confrontation with its former friend.

During the next 25 years, relations between the two countries developed rapidly in the absence of serious contradictions. The successfully progressing country wanted military technologies and information about the latest research in nuclear weapons and high-tech space technology of the United States. Beijing was following the principle of “how to be good friends and learn to manipulate your friend.”

Relations with Russia were restored to normal with the growth of the Chinese economy, which needed markets and raw materials. Today the PRC is skillfully defending its interests, refuses to agree with the United States on all issues, is concerned about America’s stronger presence in Central Asia, and actively objects to its domination in dealing with regional and global problems.

China is successfully cooperating with Russia within the SCO and is using this to cement its position as a global power. Beijing hopes to exploit its partnership with Moscow to address its own domestic problems, XUAR security in particular. Back in 2002, its previous leader Jiang Zemin speaking at the Shanghai summit described his Cabinet’s strategic task as “developing new international relations with Russia based on a partnership rather than union.”²² During his Moscow visit on 26-28 March, 2007, PRC Chairman Hu Jintao confirmed this position. On 26 March, 2007, the two countries signed a Declaration that spoke of “strategic partnership.”

¹⁹ See: A. Volokhova, “Izmeneniia vo vneshnepoliticheskikh kontseptsiaikh KNR (vzgliady kitayskikh politologov), *Problemy Dal’nego Vostoka*, No. 3, 2006, pp. 74-75.

²⁰ See: Socioeconomic Statistics of China for 2006, *Renmin ribao* on line site, 1 March, 2007.

²¹ See: [<http://www.vedomosti.ru/newspaper/article.shtml?2007/01/25/119526>].

²² *Shanghai hezuo zuzhi—xin anquan guang yu xin jizhi*, p. 311.

Beijing attached enough attention to the SCO to be actively involved in its institutional development. Today it is actively trying to set up a fund of research and analytical centers within it, and is offering training for people from Central Asia and Russia within its own programs.

China is using the SCO to support the member states fighting against separatism in XUAR; it is skillfully using this tool to control the region's Uighur population and is encouraging Chinese exports and emigration from the overpopulated country, which is suffering from the overproduction of consumer goods. This is amply testified by the Russian and Central Asian markets brimming with Chinese goods and by the gradually growing number of Chinese emigrants.

Through the SCO, China settled its border disputes with three Central Asian states; its border with Russia became safer and less controversial. According to Chinese political scientist Xing Guangcheng, the main result is a "buffer zone" of several small, disunited, and not threatening states (Mongolia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan).²³ China gained access to Central Asia's vast markets and natural resources. This created favorable conditions for large investments into XUAR and China's more prominent presence in Central Asia.

It should be said in this connection that China may also use the SCO to contain Russia's growing influence in the region. To prevent this the Russian Federation, in turn, is actively developing the EurAsEC and CIS. There is the opinion that the Central Asian countries may use the SCO to contain China's influence in the region. This structure can be used for these purposes only if Russia manages to build up its economic potential to develop into a counterbalance to China; otherwise the SCO will become China's tool. To protect its interests in Central Asia, Moscow would be forced to seek support in the West, the U.S. in particular. It looks as though, aware of this possibility, Moscow is developing closer relations with the West. This also explains why Russia accepts the West's military presence in Kyrgyzstan.

The Chinese press has pointed out that all the SCO members "pledged not to permit the organization's territory to be used for any activities infringing on the sovereignty of any of its members."²⁴ This allows China to demand that the Central Asian SCO members refuse to be involved in joint activities with foreign countries and international organizations that could be recognized as infringing on the sovereignty of any of the SCO members. The Declaration of 6 June, 2005 says that Central Asia should become a zone free from foreign military bases, according to which China can demand that the sovereign subjects not deploy military bases of the SCO non-members on their territory.

A Regional Antiterrorist Structure (RATS) is functioning in Tashkent; and military maneuvers within SCO have become a regular feature. Some time in the future, Beijing might suggest that the SCO set up a rapid deployment antiterrorist and anti-extremist forces in full conformity with the Charter's provision on military cooperation. This will allow China to move its units to the Central Asian countries.

If China's stable economic growth continues and if it gains more international prestige, it may use it to become the region's economic factor by buying shares and the controlling interest of large raw-material and industrial facilities, as well as real estate in Central Asian countries.

In the last ten years, China has been working on a new national security conception. Jiang Zemin first spoke of this on 23 April, 1997 in the Russian State Duma. Two years later, in Geneva, he outlined a conception that spoke of a worldwide atmosphere of mutual trust, shared interests, equality, and cooperation. He also suggested that large and strong states should refrain from putting pressure on the less developed countries and from interfering in their domestic affairs.²⁵

²³ See: Xing Guangcheng, *Zhongguo he xin dili de Zhongya guojia guanxi*, p. 99.

²⁴ *Shanghai hezuo zuzhi—xin anquan guang yu xin jizhi*, p. 305.

²⁵ See: Chuan Chen, "Novaia doktrina Kitaia v sfere bezopasnosti," *Vestnik analitiki*, No. 3, 2006, p. 121.

The history of Chinese contacts with the Central Asian countries says that the Chinese leaders displayed a lot of activity outside the country when the country was strong and united. We can only hope that China's public conscience has reached a higher level and that the rulers of new China will not emulate their imperial ancestors and will remain true to the conception formulated by Jiang Zemin when the country gained predominance over the leading world powers. We are puzzled by the fact that in the last fifteen years, a large number of publications has appeared that describe the Chinese emperors' military inroads into Central Asian territory as unifying.

China's active efforts to develop its contacts with the Central Asian states bring to mind what Chinese, Russian, and Western academics have written about the mentality of those who ruled the PRC. They are convinced that the Chinese civilization and mentality are "too engrossed in their own importance," which urges the Chinese leaders to work toward preserving the exclusive nature and imperial thinking of the empire that disappeared early in the 20th century. The Chinese leaders are fond of holding forth about peace, equality, and fairness in international relations. According to V. Balakin, however, "it is hard to expect that the PRC will follow, in good faith, the principle of peaceful coexistence" on the international arena. "China might go over, without any qualms, to resolute unfriendly actions against its neighbors, if it finds this desirable and possible. It will seize new markets and consistently put pressure on rivals, turning a blind eye to earlier treaties of friendship and strategic partnership."²⁶

History has taught us that the Chinese leaders were on the defensive when dealing with neighbors when China was weak, while they imposed their conditions when the country was strong. This pattern was born not only by the domestic economic and social factors, but also by the traditional frame of mind of the top crust. The huge numbers of the Han nation and its virtually uncontrolled growth are also responsible for this.

For over 25 years now, the Chinese economy has been expanding at a fast pace, producing more and more goods and demanding ever-greater volumes of raw materials and energy resources. China needs vaster markets to sell its goods and diversified sources of raw materials. Academician Tikhvinskiy, a Russian scholar of world dimension, wrote: "Markets cannot replace ethics, religion and civilization... Markets never aimed at achieving beauty or fairness, stability or spirituality. Their aims are far removed from man's predestination."²⁷ The Chinese leaders' mentality inevitably affects their Central Asian policies.

The above suggests that to develop normal relations with China, its partners should carefully study the country and its foreign policy.

C o n c l u s i o n s

Today, the fast growing PRC is emerging as an increasingly important political, economic, and cultural factor in Central Asia. Having set up a multitude of Central Asian research centers and mobilized a veritable army of scholars for Central Asian studies, China has acquired a vast monitoring potential.

²⁶ V.I. Balakin, "Politicheskie priority i investitsionny protsess v zapadnoy i kitayskoy ekonomikakh," *Vostok-Zapad 2003-2004*, Moscow, 2005, p. 171.

²⁷ Z.G. Lapina, K.I. Shilin, "Vzgliad s pozitsii ekologicheskogo budushchego: razmyshlenie po povodu raboty akademika S.L. Tikhvinskogo 'XX vek—vzgliad s blizkogo rasstoiania' (M., 2004)," *Vostok-Zapad 2003-2004*, p. 317.

It is following the road of multisided development, which may lead it to domination over all the Eurasian states. By continually building up its economic and military potential, it is gaining political weight. Its population is growing fast, which is increasing its impact on the ethnic and cultural situation in the world, from which Central Asia is not exempt.

Economic growth is worsening social problems: more people need more land and more jobs, while small and medium business need support (so far inadequate) to export more products; separatism in the country's ethnic regions has not been defeated. These domestic factors are inevitably influencing China's policy in Central Asia.

China's wider involvement in world developments makes Central Asia even more important for China for the following political reasons:

- The superpowers, particularly the U.S., should be kept outside the region to prevent its use as an instrument of pressure on China;
- Russia's former influence in the region should not be restored to keep the region accessible to China;
- The Central Asian sovereignties and the local states' international prestige should be played down to prevent their impact on the separatist sentiments in China, particularly in XUAR.

From the economic viewpoint, China needs Central Asia as:

- A source of energy resources, the demand in which is rapidly increasing;
- A nearby and cheap market for Chinese commodities and a source of raw materials;
- A political-economic and cultural corridor between China and Europe.

For the above reasons China is pursuing a flexible policy in Central Asia and taking into account the interests of Russia, the United States, and other countries.

The PRC regards the newly independent Central Asian states as a vitally important zone, on which its own security depends. It is a source of revenue, cheap raw materials, and a market for Chinese commodities, as well as a corridor to Europe and the Middle East. China will do nothing to promote the region's economic revival; it is refraining from any considerable long-term investments in the Central Asian economy and production; it is creating no new jobs, and is doing nothing to raise the standard of living of the local population.

The SCO is the only structure that ties together China, Russia, and the Central Asian countries. Some of China's neighbors (India, Pakistan, Mongolia, and others) have already displayed an interest in it. While paying much attention to the SCO's institutional development and enhancing its role, China is trying to make it a tool of its influence in Central Asia. Today, China is on an upsurge, therefore this organization could serve the interests of its members. Time will show whether it will remain the guarantor of the balance of regional interests when China achieves absolute domination on the Asian continent (this will happen, if natural disasters and other unpredictable factors do not interfere).

CHINA IN CENTRAL ASIA: FROM TRADE TO STRATEGIC PARTNERSHIP

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Today China leaves no one indifferent: some experts are overenthusiastic about its socio-economic reforms, while others fear the threats stemming from the country's new role in the world. Both groups have a right to their opinion, but in real life nothing is ever quite so black and white.

China is a dynamically developing country, but its "growing might" should not be overestimated: it is accompanied by growing problems. I am convinced, first, that in the context of world and regional security, these problems taken together are much more ponderous than "China's might."¹

Second, all those who tend to overestimate "China's might" are breeding irrational fears and all sorts of phobias, are not allowing the world to adequately assess the country's foreign policy, and are reviving fears of "China's demographic and economic threat to the countries it borders on." This is obviously an overstatement. China's

¹ For more detail, see: K.L. Syroezhkin, *Problemy sovremennogo Kitaia i bezopasnost' Tsentral'noy Azii*, KISI, Almaty, 2006.

stronger economic position in Central Asia as a whole and in Kazakhstan in particular has become obvious, but not dramatic. Its share of foreign direct investments and foreign trade volume in Kazakhstan do not exceed 10 percent.² China's share in the other Central Asian countries is even smaller. Today, China badly needs new sources of raw materials (energy resources in particular) and markets for its products. Central Asia (especially Kazakhstan) is highly attractive in both respects. The trade and economic relations between China and Central Asia are developing entirely within the worldwide economic globalization trends.

It should be said in all justice that due to its specifics and the nature of the relations among the actors involved in the region, this process is potentially dangerous to national security. This is the background against which China's presence in Central Asia is assessed.

² For more detail, see: K. Syroezhkin, "Kazakhstansko-kitayskoe torgovo-ekonomicheskoe i investitsionnoe sotrudnichestvo: sostoianie i problemy," *Kazakhstan v global'nykh protsessakh*, No. 1, 2006, pp. 43-49.

Seizing the Opportunity

The Soviet Union's disintegration and the appearance of new independent states along China's borders radically changed its geopolitical role in Central Asia. The deep political and economic crisis

in which Russia and the new Soviet successor states in Central Asia found themselves removed the “threat from the north” and allowed Beijing to concentrate on “strengthening China.” On the one hand, it addressed the domestic economic problems in order to revive Greater China. On the other, it used specific mechanisms of its own to influence the world and regional processes.

The Chinese leaders knew that the regional rivalry between Russia, Turkey, Iran, and the United States would aggravate instability in the Central Asian states and the still unresolved problems among them. Beijing preferred to avoid direct involvement in the unfolding confrontation.

China relied on the trade and economic advantages it had already acquired in Central Asia and on domestic tools to limit the negative impact of the regional processes on its Muslim areas. In all other respects, the country preferred the traditional wait-and-see millennia-tested tactics. The Chinese leaders reconciled themselves to a certain extent with America’s presence in the region, which was helping to curb Iranian influence, promoting no matter how limited market reforms, and reducing the impact of the nationalist political forces. Russia, which was keeping Turkey’s influence within certain limits, was also acceptable.³

The situation in the region (with the exception of Tajikistan) was described as “relatively stable,” which was very important for China’s Central Asian policy. It was commonly believed in China that the region owed its stability to the fact that “despite considerable changes in the states’ political structure and renaming or eliminating the former Communist parties, real power belongs to the reformers in the communist leadership.”⁴ This explains why together with the task of limiting the impact of Islamic fundamentalists and pan-Turkists on their Muslim regions, the Chinese leaders have been exerting great efforts to “support the current political power in the Central Asian states” for the simple reason that it “is demonstrating caution in its attitude toward pan-Turkism and fundamentalism and strictly limits the spheres of their influence. This is especially true of Islamic fundamentalism.”⁵ China strove to preserve stability in its predominantly Muslim regions, which directly depended, according to the central and regional government, “on the situation in the newly independent Muslim neighbors.”⁶

The most urgent political goals of China’s Central Asian policy in the early 1990s were described as follows:

- achieving border settlement;
- limiting the influence of pan-Turkism, political Islam, and ethnic separatism on the fairly unstable Muslim Xinjiang-Uighur Autonomous Region of China, which borders on Central Asia;
- establishing wider bilateral trade and economic contacts with the Central Asian countries to preserve China’s limited political presence and to extend its economic presence as much as possible in order to set up “outposts” on the vast Central Asian market;
- ensuring political balance in Central Asia in an effort to maintain the current political regimes, on the one hand, and to preserve the current disagreements among them, on the other.⁷

From the very beginning, China has been and continues to practice a differentiated approach to the new states proceeding from the following factors:

³ See: *Zhongya yanjiu* (Central Asian Studies), No. 1-2, 1992, pp. 14-15; L.C. Hurris, “Xinjiang, Central Asia and the Implications for China’s Policy in the Islamic World,” *The China Quarterly*, No. 2, March 1993, p. 125.

⁴ *Zhongya yanjiu*, Summary issue, 1993, p. 24.

⁵ *Ibid.*, p. 29.

⁶ L.C. Hurris, *op. cit.*, p. 125.

⁷ See: *Dongou Zhongya yanjiu* (Research on Eastern Europe and Central Asia), ed. by Zhang Baoguo, Urumqi, 1999; *Zhongguo yu Zhongya* (China and Central Asia), ed. by Xue Jundu and Xing Guangcheng, Beijing, 1999, pp. 183-224; *Zhongguo yu Zhongya yanjiu wenji* (Collected Studies of China and Central Asia), ed. by Wu Fuhuan and Cheng Shiming, Urumqi, 1998, p. 7.

- The state's geopolitical situation and its role in post-Soviet Central Asia; its socioeconomic potential; the degree of its activity; and the prospects of using it in the interests of China's border areas;
- Political balance, the leaders' ability to control the economic and political situation at home, as well as the degree of social and ethnic stability, which would exclude the negative impact of Central Asia's social, political, and ethnic processes on China's border regions;
- The activities of religious organizations and the degree to which religion (Islam in particular) affects the country's foreign and domestic policies;
- The nature of relations with the Russian Federation, the Muslim world, China, and other subjects of international law;
- Compatibility of specific countries' type of socioeconomic and political development with the "Chinese model" and "China's foreign policy goals."

The above explains China's heightened interest in Kazakhstan and Kyrgyzstan. The former has the longest land border of its neighbors with China with 11 contested stretches; Kazakhstan has considerable economic and resource potential; there are no immutable religious traditions inside the country, while some of the Uighur separatist organizations are based on its territory. The latter deserved China's attention because some of the border stretches needed specification; the country has attractive resource potential; Islamic influence inside the country was fairly limited, while some of the separatist Uighur organizations favoring Xinjiang's independence were stationed on its territory. Tajikistan attracted attention merely because the common border needed specification; Uzbekistan deserved attention as the only Central Asian country that tried to apply the "Chinese model" at home, while Turkmenistan, which maintained contacts with the Taliban since the latter half of 1994, also deserved its share of attention. Uzbekistan was seen as an unquestioned regional leader and the most promising trade, economic, and political partner, while Turkmenistan was regarded as a sustainably developing state. According to Chinese analysts, "compared with Kazakhstan and Kyrgyzstan, Uzbekistan and Turkmenistan are facing less serious problems... Industry and social life in both countries are fairly regulated."⁸ This description was probably prompted by their "closeness to the Chinese model," the type of reforms launched by Islam Karimov and Saparmurat Niyazov and the absence of serious problems in relations with these countries: there are no border problems; and there are no considerable ethnic diasporas that play a great role in China's relations with Kazakhstan and Kyrgyzstan.⁹

This differentiation can be easily detected in the volume and nature of trade and economic contacts with the region's countries in the early 1990s: Kazakhstan was the leader, while the shares of Uzbekistan, Tajikistan, and Turkmenistan remained negligible.¹⁰

In the latter half of the 1990s, China readjusted its approaches to include geostrategic considerations in its economic interests. This explains the rapid growth of trade and economic contacts with Uzbekistan, Kyrgyzstan, and Tajikistan, as well as the qualitatively new level of relations with Kazakhstan.¹¹ This also explains the closer attention to the collective security issues

⁸ *Zhongya yanjiu*, No. 3-4, 1994, pp. 28-29.

⁹ See: *Dongou Zhongya yanjiu*, No. 2, 1997, pp. 29-32.

¹⁰ For more detail, see: K.L. Syroezhkin, "Kitay i Tsentral'naia Azia: politicheskie otnoshenia i torgovo-ekonomicheskoe partnerstvo," *Kazakhstan-Spekt*, No. 1-2, 1997, pp. 61-67.

¹¹ In June 1997, the Chinese National Petroleum Company won a tender under which it acquired 60 percent of shares of Aktiubinskneft Joint Stock Company. This brought China into the oil-and-gas sector of Kazakhstan and the "project of the century"—an oil pipeline from Western Kazakhstan to Western China.

and the “struggle against Islamic fundamentalism” in China’s relations with the Central Asian countries.

In April 1996, China initiated the Agreement on Military Confidence-Building Measures in the Border Regions, signed in Shanghai, and the Agreement on Mutual Reduction of Armed Forces in the Border Regions, signed in Moscow in April 1997. They served as the foundation for the Shanghai Five, which was transformed into the Shanghai Forum late in the 1990s and into the Shanghai Cooperation Organization in June 2001. Significantly, as early as the mid-1990s, Beijing realized that the organization it had set up could serve as the vehicle of its interests in Central Asia. In any case, it was the Shanghai Five which, starting in April 1997, altered the bilateral format—China and four post-Soviet republics—to a five-sided format, within which each of the five members played an independent role. It was through this structure that China settled one of its major problems—the controversial border stretches.¹² Other border issues remain shelved.

Many important geopolitical problems were likewise settled through this structure; it was in Shanghai that the strategic alliance between Russia and China took shape. During a visit to Shanghai, President Yeltsin described it as a “counterbalance to Western domination” and added that the diktat of one state could not be accepted.

On 4-6 July, 1996, during his official visit to Kazakhstan, Jiang Zemin upheld a similar position. Speaking at the Kazakhstan parliament, he described his country’s approaches to the world’s most outstanding issues and clearly pointed out: “The unjust and irrational world economic order should be changed” through closer cooperation along the South-South line. China claimed the copyright on this idea and, in view of its geopolitical situation, offered its services as coordinator.¹³ In other words, back in 1996, Beijing formulated a new idea of confrontation between the blocs of the developing and developed countries; the latter were openly invited to trim their requirements in favor of the Third World.

This period should be summed up as follows: China fully exploited the opportunity presented by the Soviet Union’s disintegration and the geopolitical vacuum in Central Asia to, first, settle its border issues. It profited from the settlement, while the Central Asian states lost a trump card that could be potentially used in their later talks with Beijing over pressing issues. Second, China not only gained a strong economic position in all the Central Asian republics, but also developed its Greater North-West with the help of the republics’ economic potential.¹⁴ Third, by signing agreements with the local countries, China enlisted them as allies in the struggle against ethnic separatism. More than that: by the same token, it split the “Muslim unity” of the Xinjiang peoples and the autochthonous Central Asian nationalities to a certain extent. As a Shanghai Five member, it became immune to the interference of third countries in the “Uighur factor.” Fourth, Russia and the newly independent Soviet successor Central Asian states, badly hit by the political and economic crisis, were no longer a “threat from the north.” China used this historic chance to concentrate on its domestic problems, economic development, and reestablishment of Greater China. Finally, China fortified its position in all the Central Asian countries, mainly through its economic presence and as a key member of the emerging regional security system, of which the Shanghai Five was one of the links.

¹² The main border agreement with Russia was signed in November 1997; and the additional agreement in October 2004. The border agreement with Kazakhstan was signed in April 1994, and the additional agreement in September 1997. The dates for Kyrgyzstan are July 1996 and August 1999, respectively; for Tajikistan, they are February 1999 and May 2002.

¹³ See: *Kazakhstanskaia pravda*, 6 July, 1996.

¹⁴ For more detail, see: K.L. Syroezhkin, *Problemy sovremennogo Kitaia i bezopasnost v Tsentral’noy Azii*.

The SCO as a Mechanism of Influence

By mid-1999, the situation in the region, as well as more active American efforts to build up its influence there,¹⁵ forced China to look for a mechanism of its direct involvement in the security issues in Central Asia. The Shanghai Five was selected as this mechanism.

On 5 July, 2000, the Dushanbe summit approved of the sides' efforts to develop the Shanghai Five into a regional structure of multilateral cooperation. The summit outlined the specific threats—international terrorism, religious extremism, and ethnic separatism—“which threatened regional security, stability, and development,” as well as illegal trade in weapons and drugs, and illegal migration.¹⁶

The Five members planned to draw up a multisided program, sign all the necessary multilateral agreements and treaties, organize regular meetings of the heads of law-enforcement structures and of border guard and customs services, and carry out antiterrorist and anti-violence training exercises patterned on the countries' needs.

China needed this as badly as Russia and the Central Asian countries: by that time, the common regional threats had become an unwelcome reality and a destabilization factor in the region and elsewhere in the world. It was these developments that changed the local attitude toward China's presence in the region. Uzbekistan, which was facing the very real possibility of being drawn into a civil war, was probably the first to feel the reality of the threat. This explains why President Karimov deemed it necessary to point out at the summit: “The presence of two great powers—Russia and China with their huge potential—in Central Asia in the current situation does not merely guarantee peace and stability in our region, it also contributes to its sustainable development.”¹⁷

This opened more “windows of opportunity” for China to be used without irritating Russia and raising a new wave of fear about “Chinese expansion.” Direct confrontation with the United States was equally unwelcome.

The anniversary summit of the Shanghai Five held on 14-15 June, 2001 was expected to resolve the problem. Uzbekistan's membership and the Declaration on the Creation of the Shanghai Cooperation Organization (SCO) demonstrated that a new international structure had arrived on the scene.

China deliberately concentrated on economic cooperation within the SCO, and neither was the statement by Chinese Foreign Ministry Spokesman Zhang Deguang accidental, who said: “Neither the Shanghai Five nor the SCO are alliances; they will never develop into a military bloc or any other collective security system.”¹⁸ First, it did not irritate the other regional players (the U.S. in particular); second, by that time Beijing had obviously concluded that it would not build up its influence in the region through a regional security system. Indeed, in this respect, the Shanghai Forum was much weaker than the CSTO. Third, any emphasis on the security and military-political cooperation issues limited the geographical extent of China's involvement in Central Asia, since Turkmenistan and Uzbekistan would have been left outside the sphere of Chinese influence. For obvious reasons, China did not want this. On the other hand, everyone was prepared to accept the economic issues, which allowed China, with much larger resources than before, to increase its influence in Central Asia. Two key questions remained unanswered: Who will fund the project and how? How can the integration processes within

¹⁵ For more detail, see: K. Syroezhkin, “Central Asia between the Gravitational Poles of Russia and China,” *Central Asia: the Gathering Storm*, ed. by Boris Rumer, M.E. Scharpe, Armonk, New York, London, 2002, pp. 109-207.

¹⁶ See: “Dushanbe Declaration of Heads of State of the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan,” *Kazakhstanskaia pravda*, 13 July, 2000.

¹⁷ ITAR-TASS, 5 July, 2000.

¹⁸ *Panorama*, No. 23, 15 June, 2001.

the CIS and the CAEC be harmonized with the integration processes within the SCO? There were no answers to these questions, but some experts correctly believed that when developing the SCO in the economic sphere, "it is extremely important to avoid obviously unrealizable, but fashionable integration ideas."¹⁹

The events of 9/11 and America's interference in the Afghan conflict that followed destroyed China's geostrategic constructs, which since the late 1980s remained riveted to the formula: "While relying on the North stabilize the Western sector and concentrate on the East and the South." Prior to the counterterrorist operation in Afghanistan, the formula remained highly effective. The American military bases in Central Asia undermined it.²⁰ Without real tools of influence in the region to be used to remove the challenge, China had, on the one hand, to strengthen the armed groups deployed in the XUAR to protect its own safety. It also invigorated the process of setting up antiterrorist structures within the SCO and established closer contacts with its members to limit American influence in the region and preserve its position in the regional security structures. It is commonly believed in the West that the events of 9/11 and the American military presence in Central Asia undermined the SCO's regional security role and slowed down Beijing's growing influence by undermining its position.²¹ Chinese experts are convinced of the opposite.²²

Something bothered China more than anything else in the context of the various opinions of the Central Asian states on the Iraqi issue²³ and Uzbekistan's withdrawal from what was done within the SCO²⁴: the public and the region's political leadership might learn to take America's military presence on their doorstep for granted and an alternative to Russia's and China's security guarantees. The fears were well-founded: the U.S.'s promises of investments and political support tempted the leaders

¹⁹ V.V. Mikheev, "Obshchie problemy realizatsii interesov Rossii v ShOS. Predlozhenia po povysheniu effektivnosti ee raboty," *Problemy stanovleniia Shanghaiskoy organizatsii sotrudnichestva i vzaimodeystvia Rossii i Kitaia v Tsentral'noy Azii*, Institute of the Far East, RAS, Moscow, 2005, p. 28.

²⁰ According to Ge Dide, an expert at the National Defense University of the Chinese People's Liberation Army, "Beijing is very concerned with the appearance of American armed detachments at China's western borders for the first time in its history... Their presence will ease NATO's expansion to the East and tie together the American military contingents in Europe and the APR." Ge Dide is convinced that the United States will have enough troops at the military bases in Afghanistan and Central Asia to ensure operational control over certain zones and objects in China (quoted from: A.F. Klimenko, "Znachenie Tsentral'no-Aziatskogo regiona. Razvitie strategicheskogo partnerstva mezhdru Rossiei i Kitaem v ramkakh ShOS i nekotorye napravleniia sovershenstvovaniia etoy organizatsii," *Problemy stanovleniia Shanghaiskoy organizatsii sotrudnichestva i vzaimodeystvia Rossii i Kitaia v Tsentral'noy Azii*, pp. 65-66).

According to Xing Guangcheng, Deputy Director of the Institute for East European, Russian and Central Asian Studies, Chinese Academy of Social Sciences, "The PRC is not interested in the prolonged American presence in Central Asia close to its borders and does not support it. This threatens China's interests" (Xing Guangcheng, "The Shanghai Cooperation Organization in the Fight against Terrorism, Extremism, and Separatism," *Central Asian and the Caucasus*, No. 4 (16), 2002, p. 19).

²¹ According to one of the leading American experts in central Asia Eugene Rumer, "A regional power broker prior to 11 September, 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 the Taliban and the ensuing blow to operations of its own Uighur militants—U.S. preponderance in Central Asia must be a serious setback to the government that aspires to the role of the Asian superpower" (E. Rumer, "Flashman's Revenge: Central Asia after 11 September," *Strategic Forum* (Washington, DC), No. 195, December 2002, p. 3).

²² According to Zhao Huasheng, Director of the Department of Russian and Central Asian Studies at SIIS, "It is true that the geopolitical changes in Central Asia in the wake of 9/11 came as a surprise to China. Notwithstanding, its impact on China and China's self-assessment of its situation are not as strong and pessimistic as perceived by some foreign analysts" (Zh. Huasheng, "China, Russia, and U.S.: Their Interests, Postures, and Interrelations in Central Asia," *Central Asia and the Caucasus*, No. 5 (29), 2004, pp. 121-122).

²³ The war on Iraq demonstrated that there was no unity in the SCO: Russia was dead set against the war, while China was more cautious in its rejection of it. Tajikistan, Kazakhstan, and Kyrgyzstan announced that they were neutral "within the framework of international law." Uzbekistan whole-heartedly supported America.

²⁴ Uzbekistan took part in two out of six meetings of SCO representatives held in April-May in preparation for the St. Petersburg summit. The two sittings it attended dealt with economic cooperation and the draft SCO Charter; the four other sittings discussed regional security issues, which Uzbekistan ignored.

of Uzbekistan and Kyrgyzstan, who sincerely believed that Washington had readjusted its attitude toward the local political regimes. Indeed, the United States first demonstrated that it was prepared to fight Islamic fundamentalism and terrorism with much better effect than the SCO; second, America was building up its military presence in Central Asia with Russia's tacit agreement and against the background of its nearly normal relations with the United States.

At that time, China was concerned not only about preserving its economic position in the region; it also had to address two no less important tasks: limit America's political presence and its influence on the local political elites and preserve Central Asia's political regimes and relative local political stability. For obvious reasons, the PRC did not need a seat of tension fanned by the Islamic factor on its borders. The problems were resolved thanks in particular to the SCO collective security mechanism (part of the SCO Agreement and accompanying documents), with the help of which Beijing was closely monitoring developments to prevent anti-Chinese alliances. The same document transformed the CIS-China borders into a zone of multilateral economic cooperation. The SCO member states, China in particular, the common antiterrorist and antiseparatist efforts, and the economic prospects were attractive enough for new members, including those that had no common borders with China. Being aware of its competitive advantages over Russia,²⁵ China hoped, with good reason, to become the SCO's first fiddle, if the organization's economic component came to the fore.

The special meeting of SCO foreign ministers held on 7 January, 2002 in Beijing tied SCO stability to the new geopolitical conditions. By stressing the Afghan problem and pointing out that the U.S. and the SCO had different ideas about its settlement,²⁶ the PRC and Russia hinted that they were prepared to tolerate America's military presence in Central Asia up to a certain point and under certain conditions. Russian Foreign Minister Igor Ivanov pointed out: "It is for the SCO, which unites like-minded neighbors tied together by many years of cooperation and tradition, to become a systemic element of regional security and development. The regional states alone are responsible for the political climate in the region and the forms of development and cooperation prevalent here."²⁷

The St. Petersburg summit of June 2002 strengthened the SCO mechanisms still further. The SCO Charter specified the rights and duties of its members, which was absolutely indispensable in the new geopolitical situation in Central Asia.

It is no accident that the document stated that illegal actions against the SCO's interests were inadmissible. Art 13 of the Charter was very explicit on the issue: "SCO membership of a member State violating the provisions of this Charter and/or systematically failing to meet its obligations under international treaties and instruments, concluded in the framework of SCO, may be suspended by a decision of the Council of Heads of State adopted on the basis of a representation made by the council of Ministers of Foreign Affairs. If this State goes on violating its obligations, the Council of Heads of State may take a decision to expel it from SCO as of the date fixed by the Council itself."

The above was introduced into the Charter for obvious reasons: the positions of some of the members remained vague. None of the members made any official statements contradictory to the

²⁵ Beijing proceeded from the dynamics of its economic and military potential. Whereas in 1990, there was parity between the Chinese and Soviet GDP volumes, in 2000, the Chinese GDP was five times larger than Russia's. Military experts have calculated that by 2010-2015 Beijing will achieve nuclear parity with Moscow (see: S. Strokan, "Shanghaiskaia gramota: nachalo novogo etapa v istorii Tsentral'noy Azii," *Kommersant-Vlast*, 26 June, 2001).

China was prepared "to extend all possible assistance to Kyrgyzstan in case of more aggression by fighters." It was with Chinese assistance that not only Uzbekistan, but also other Central Asian countries hoped to increase the number of countries involved in securing their safety and achieving at least minimal economic prosperity.

²⁶ See: "Sovmestnoe zaiavlenie ministrov inostrannykh del stran-chlenov ShOS," *Renmin ribao*, 16 January, 2002.

²⁷ RIA "Novosti," 7 January, 2002.

agreements reached within SCO (the January 2002 meeting of the foreign ministers confirmed these agreements), but relations among the members had become significantly cooler.²⁸

This happened because the situation in Central Asia was developing under the impact of the U.S. and its European allies, which moved to the fore in ensuring regional security and pushed the Russia-China tandem aside. The local leaders became less enthusiastic about the SCO and its system of regional security: its prospects were assessed in the context of the relations between each member country and the United States, the PRC, and Russia, as well as the relations within this geopolitical triangle. The position of certain member states changed under the fear of Russia's "imperial ambitions," China's "expansion," and the White House's lavish investment promises.

The years 2003 and 2004 were spent searching for a way out. Judging by certain Chinese publications, Beijing reached important conclusions.

- First, America's military-political presence in Central Asia would remain a more or less permanent factor in the near future: neither China nor Russia, no matter how displeased with it, could do anything about it.²⁹
- Second, "Russia is growing weaker—it can no longer dispatch adequate forces to Central Asia,"³⁰ which meant that, on the one hand, it would hardly be able to fulfill the mission of squeezing the United States out of the region the Chinese strategists entrusted it with. On the other, China might build up its (primarily economic) influence in Central Asia.
- Third, the Iraqi crisis would not end soon; this buried the hope of sustainable fuel deliveries from the Middle East, which meant that their geographical dimensions should be extended to Russia and the Central Asian states.³¹
- Fourth, Beijing, which needed a stable strategic rear area, was more than concerned over the rivalry among Russia, the U.S., and China in Central Asia.³² This meant that "what China, Russia, and the U.S. ultimately need in Central Asia is a multilateral cooperation framework. Mere bilateral cooperation can hardly settle the issue of multilateral relations."³³

²⁸ In the majority of cases Uzbekistan invariably took a special position. For example, President Karimov called on the SCO not to hurry with the planned SCO antiterrorist structure based in Bishkek (the headquarters) and Beijing (the Secretariat). In St. Petersburg he addressed his colleagues, particularly Jiang Zemin, with the following words: "The SCO stands a good chance of developing into a serious factor of world politics if it soberly assesses the post-9/11 world. The world is changing together with the balance of forces. Pragmatism of Russia and the United States and the leaders who signed the Russia-NATO documents spoke of a sober approach and understanding of the new situation. We should take this into account." Translated into ordinary language, this meant that the member states were advised to coordinate their actions with the United States. The puzzled journalists wanted to know: "Have the presidents noticed that the U.S. was virtually present at the summit?" *Vremia novostey*, 10 June, 2002.

²⁹ See: Zhao Huasheng, "ShOS i sootnoshenie velikikh derzhav na fone novoy situatsii v regione TsA," *Analitic*, No. 1, 2003, p. 5.

³⁰ Li Lifan, Ding Shiwu, "Geopolitical Interests of Russia, the U.S. and China in Central Asia," *Central Asia and the Caucasus*, No. 3 (27), 2004, p. 140.

³¹ See: *Ibid.*, p. 142.

³² Chinese experts suggest three possible options: 1. *Continued balance of interests and status quo*, if the United States "restrains its egotism," takes account of the U.N.'s role and decisions and of other international instruments, and discusses with Moscow its most important decisions on global issues and seeks Beijing's opinion. 2. *Confrontation of the powers and clashes among them*, if "Russia is aware of the limits of its retreat in the face of the growing threat to its Central Asian interests emanating from the United States." 3. *The powers will refuse to maintain the balance of forces in the region*, consequently there will be chaos, if "Russia, after weighing up all the 'pros' and 'cons,' abandons its claims to regional leadership" (Li Lifan, Ding Shiwu, *op. cit.*, pp. 144-145).

³³ Zhao Huasheng, "China, Russia, and U.S.: Their Interests, Postures, and Interrelations in Central Asia," *Central Asia and the Caucasus*, No. 6 (30), 2004, p. 92. He offered the following options: "(1) The United States becomes an observer or interlocutor in the Shanghai Cooperation Organization; (2) China becomes an observer or interlocutor in NATO's Partnership for Peace program and takes part in its actions together with Russia; or (3) all three powers find some common ground in the framework of the Shanghai Cooperation Organization and NATO's Partnership for Peace program" (*ibid.*, p. 94).

- Fifth, no matter which points the Chinese experts disagreed on with respect to the role and prospects for the SCO,³⁴ they all agreed that the structure should be preserved, since “the SCO is the most convenient and legal channel of such communication and a reliable instrument of coordination in Central Asia.”³⁵ Chinese experts pointed out: “After a long period of deliberations and careful preparations Beijing acquired its Central Asian strategy. Since then, China has been using the SCO to be actively involved in all regional issues, to develop its relations with the local countries, to contribute to their stability and prosperity, and to look after its own strategic interests concentrated on developing local resources.” This meant that “China should build its Central Asian strategy on the SCO; it should consolidate its positions, and improve its mechanism to get rid of its functional shortcomings in order to make it the regional leader.”³⁶
- Finally, China aimed at greater economic involvement in the region through bilateral and multilateral projects within the SCO. In October 2003, the Atasu-Alashankou oil pipeline project was revived. The minutes of deliberations were signed in 1997; in September 2004, a Program of Multisectoral Trade and Economic Cooperation was signed in Beijing. It created a basis not only for broader trade and economic relations, but also for deeper integration into all economic spheres.³⁷ This strategy remained unrealized for political reasons—the wave of Color Revolutions that swept the CIS.

At the New Stage

The events in Georgia and Ukraine (in the fall of 2003 and 2004) and especially in Kyrgyzstan (the spring of 2005), which added another element of uncertainty to the post-Soviet situation and the U.S.’s involvement in them, urged the PRC to take a fresh look not only at the threats coming from the post-Soviet territory, but also at the nature of its relations with Russia and America within its Central Asian strategy. V. Mikheev was quite right when he said that China had to choose between Russia’s and its own course or place its stakes on the American factor.³⁸

The dilemma caused by the regional threats and, to a greater extent, by the regional policies of the three largest extra-regional actors was real. Their strategic interests (the fight against terrorism, religious extremism, and drug trafficking) were the same; they disagreed over the priorities and held different ideas about tactics and methods.

³⁴ See: V. Mikheev, “Kitai i ShOS: problemy vzaimodeystvia ‘velikikh derzhav’ i perspektivy organizatsii,” *ShOS: stanovlenie i perspektivy razvitiia*, KISI, Almaty, 2005, pp. 31-44.

³⁵ Li Lifan, Ding Shiwu, op. cit., p. 144.

³⁶ *Ibid.*, pp. 141-142, 144. Zhao Huasheng was even more specific when pointing to China’s role in Central Asia; he wrote: “Securing Central Asia as China’s stable strategic rear area depends on three conditions. First, on resolving the disputed border issues between China and Central Asia and maintaining peace and security in the border areas. Both tasks have been entirely fulfilled, save a few remaining negotiations over uninhabited and inconsequential border areas. Second, on the Central Asian nations adopting a good-will foreign policy toward China and China maintaining fairly good bilateral relations with the Central Asian nations. Third, on Central Asia not falling under the control of any major power or group of major powers, especially those that have complicated geopolitical and strategic relations with China. It can be inferred that, as another basic principle and target of China’s Central Asian policy, China must maintain amicable relations with the Central Asian nations and prevent these nations from being controlled by any major power or group of major powers” (Zhao Huasheng, “China, Russia, and U.S.: Their Interests, Postures, and Interrelations in Central Asia,” *Central Asia and the Caucasus*, No. 5 (29), 2004, p. 119).

³⁷ The program contained 127 projects in 11 economic branches; development of transport infrastructure, energy, ecology, and drinking water were the top priority spheres.

³⁸ See: V. Mikheev, “Kitai and ShOS: problemy vzaimodeystvia ‘velikikh derzhav’ i perspektivy organizatsii,” p. 32.

Beijing is placing its stakes on supporting the existing political regimes; it plans to build up its influence in Central Asia through large-scale economic projects. The United States, on the other hand, hopes to expand its influence by “removing authoritarian political regimes” and “exporting democracy.” Russia has chosen the middle-of-the-road course: while not actively opposing the “export of democracy,” it is trying to use the struggle against real threats to enlarge its military-political presence.

Second, the Color Revolutions made it absolutely necessary to identify its attitude to the Central Asian political regimes and the opposition. Russia’s adjusted policies toward the CIS members and their political regimes could not pass unnoticed in China: before the Ukrainian developments, Russia concentrated on supporting the current political leaders. After the Orange Revolution, it is guided by its national interests and the level of any political leader’s loyalty to Moscow.

Third, the need emerged to decide whether the SCO could be used to settle regional conflicts. The events in Kyrgyzstan confirmed beyond a doubt that neither the CSTO nor the SCO were prepared to act collectively in the face of a crisis in any of the member states. Beijing found itself in a difficult situation: as one of the key SCO members, China could have suggested certain steps designed to localize potential conflicts. At the same time, it would like to avoid any accusations of interference in the domestic affairs of other countries, as well as another wave of fear about “Chinese expansion.” In the absence of ready solutions, Chinese experts and diplomats spared no effort to find out the opinions prevalent in the Central Asian expert communities. One thing was absolutely clear: the continued American military presence in the region was a destabilizing factor.³⁹ China could not cope with the problem single-handedly; more than that—it wanted to avoid a direct confrontation with the United States.

The above crystallized into China’s Central Asian tactics and the use of the SCO mechanisms. Beijing was playing three games simultaneously: Russia’s fears about the Chinese influence should be alleviated; the United States, its political role in Central Asia needed trimming, should not be irritated; China should acquire a reliable rear area and gain access to the local hydrocarbon and other resources. China’s position in the geopolitically more important APR should be consolidated.⁴⁰

This is how the results of the SCO summits in Tashkent (June 2004) and especially in Astana (5-6 June, 2005) should be interpreted. They demonstrated that, first, Beijing, which posed as the key investor in economic integration, insisted on the speediest possible implementation of the SCO economic projects; second, in the future the SCO would develop into a global structure; third, the SCO members were not happy about American domination in the region and America’s “export of democracy.” Finally, the SCO intended to lower the level of the American presence (particularly its military-political presence) in Central Asia.

Western experts readjusted their opinions accordingly: in the past, most of them displayed no concern over the SCO as a mechanism for limiting America’s presence in the region.⁴¹ While before

³⁹ According to Prof. Zhu Zhenghong of Xinjiang University, “America’s military presence and political influence in Central Asia added, to a certain extent, to the sociopolitical contradictions in the region’s countries and created potentially destabilizing factors for their leaders” (see: Zhu Zhenghong, “Regional Security in Central Asia and Russia after 9/11,” *Far Eastern Affairs*, No. 1, 2005).

⁴⁰ This perfectly fitted the PRC foreign policy doctrine, which the new generation of leaders changed a lot. The new strategy presupposed abandoning the passive wait-and-see policy designed to create a favorable external context for domestic reforms and shifting to an active policy. China wanted a more active role in global developments. There was a shift from the policy of predominantly bilateral ties to multilateral diplomacy, active and even aggressive protection of Chinese interests, Chinese businesses, and Chinese citizens abroad (see: V. Mikheev, “Vneshniaia politika Kitaia pri novom rukovodstve,” *Azija i Afrika segodnia*, No. 12, 2005, p. 4).

⁴¹ See: Ch.E. Zigler, “Strategia SShA v Tsentral’noy Azii i Shanghaiskaia organizatia sotrudnichestva,” *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 4, 2005, p. 21; G. Bates, *China’s Security Interests and Activities with Central Asian States. Paper presented to the National Defense University Conference on Meeting U.S. Security Objectives in a Changing Asia. 22-23 April, 2004*, available at [<http://www.ndu.edu/inss/symposia/pacific2004>].

the Astana summit the Western official structures lauded the SCO's antiterrorist efforts and its struggle against religious extremism and drug trafficking, as well as its contribution to economic integration and transborder safety,⁴² they changed their tune after the summit to one that was more critical and anti-Chinese.⁴³

The West is worried about several issues: (1) A new strategic alliance is emerging in the heart of Asia that may potentially be aimed against the West; (2) Beijing, not Moscow, is its true leader, which means that in several years the Central Asian republics will turn away from Russia to China; (3) India, Pakistan, and Iran have already indirectly joined the alliance (at least they demand a reduction in the West's military presence in the region); (4) China is using the SCO not only as a toehold to fortify its presence in Central Asia, but also as a tool to oppose the U.S.-led alliance in the APR and to build up its own influence in Southwestern Asia, the Middle East, East Africa, and the Indian Ocean.

To a great extent these fears are justified. Russia and China deny any intention to turn the SCO into an anti-Western alliance and insist on its economic nature, but this prospect cannot be ruled out altogether.

The above confirmed the thesis that thanks to the SCO, Beijing acquired the entirely legitimate possibility of acting in the post-Soviet expanse according to the CIS's unwritten rules. What is more, this does not raise objections either from Russia or the Central Asian countries; in fact, China's involvement is approved. In other words, China acquired the possibility of playing, without hindrance, on the contradictions inside the CIS and among various groups in all the countries without being accused of expansionism and subversive activities.⁴⁴

Why did this happen in Central Asia where Russia had dominated for so long? The answer is easy: early in the 1990s when Russia vacated the region on its own free will, China merely seized the opportunity. In the middle and late 1990s, while Central Asia was busy identifying its geopolitical priorities, Russia was engaged elsewhere. First, it was building up contacts with the West and later it was engaged in sorting out its contradictions with it. Central Asia was obviously beyond the range of its attention. When it dawned on it that regional developments were threatening its security, Russia deemed it necessary to move into the region to fortify its position there. It became obvious that Russia's "imperial ambitions" were as strong as ever, which caused concern among the Central Asian republics.⁴⁵ Second, China, which had already entrenched itself, was regarded as a welcome alternative to Russia; Russia would have to prepare itself for stiff competition with the PRC. Early in the 2000s, America and NATO, which incorporated Central Asia into the sphere of their strategic interests,⁴⁶ established their military presence in the region, thus challenging both Russia and China. Russia-China rivalry developed into a partnership in which China played the first fiddle for obvious reasons.⁴⁷

⁴² See: *Joint Statement by President George W. Bush and President Vladimir V. Putin on Counterterrorism Cooperation*, 24 May, 2002, available at [<http://www.whitehouse.gov/news/releases/2002/05/24>].

⁴³ See: "The Axis of Nay Sayers," *The Wall Street Journal*, 7 July, 2005; Ch. Brown, "Signals from Uzbekistan," *The Washington Times*, 15 August, 2005; "Russia, China Looking to Form 'NATO of the East'?" *Christian Science Monitor*, 26 October, 2005; "China's Question," *Project Syndicate*, 20 December, 2005.

⁴⁴ See: G. Kunadze, "Shanghaiskaia organizatsia sotrudnichestva—mistifikatsia ili real'nost'?" in: *ShOS: stanovlenie i perspektivy razvitiia*, p. 139.

⁴⁵ Here is one of the methods for choosing priorities: "Development of the CSTO will inevitably strengthen Russia's position both inside the structure and in the region. The Central Asian republics find the SCO more attractive because two powers seeking domination in the region—Russia and China—are involved in it. The SCO has no (openly demonstrated) anti-Western (anti-American) designs. The SCO is trying to exceed the limits of a military organization by expanding the cooperation fields with the member states" (E. Karin, "ShOS i ee znachenie dlia Tsentral'noy Azii," *ASSANDI-TIMES*, 25 June, 2004).

⁴⁶ See: A. Catranis, "NATO's Role in Central Asia," *Central Asia and the Caucasus*, No. 5 (35), 2005, pp. 37-44.

⁴⁷ In October 2005, at a meeting of the SCO Council of Heads of Government in Moscow, Beijing revealed, for the first time at the high level, its geopolitical ambitions and claimed the role of the Central Asian leader by placing on the

The newly developed partnership is burdened with numerous problems caused by the objective difficulties in the two countries' bilateral relations, Russia's and China's vague relations with the West and the United States as its part and the potential conflict between China's ambitions and Russia's historical memory of its domination. So far, the sides have to pool forces to downplay America's influence in Central Asia. In this respect, the partnership and the SCO, as its main instrument, are effective enough. So far, no one knows what will happen to the partnership and the SCO when China becomes stronger, while the common aim has disappeared.

After signing the Declaration on Establishing and Developing Strategic Partnership with Kazakhstan in July 2005, Beijing demonstrated that it regards the region as a sphere of its strategic interests. So far, no one knows how China will act when the U.S. leaves Central Asia and when its partnership with Russia ceases to be a priority.

Chinese experts are making no secret of the fact that the SCO is a mechanism that allows China to be directly involved in the region and closely follow the local developments. It will act in its own interests, which, at some point, might clash with Russia's interests and strategy. In this case, China will probably ask the local countries to choose between its "investment potential" and Russia's "imperial ambitions." So far this is a probability that might become a possibility. Even though there is fear about "Chinese expansion," the political elite and the public of Central Asian countries regard Beijing as a possible alternative to Moscow. This should be taken into account.

negotiation table a weighty argument in the form of \$900 million export credits for the SCO members with 2 percent interest and repayment period of 20 years. At the same sitting, Chairman of the PRC State Council Wen Jiabao outlined the economic priorities, which when realized would create conditions for a China-initiated free trade zone in the SCO expanse. He also pointed out that his country planned to increase the sum in the near future (see: *Xinhua*, 26 October, 2005). In ordinary language, this means that the head of the Chinese Cabinet was prepared to fund the SCO economy. It challenged Russia, which regards the region as its foreign policy priority, not the West.

SOUTHWESTERLY ENLARGEMENT OF GREATER CHINA

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The beginning of the 21st century provided a new platform for viewing the relations between the West and East in the world economy and politics. Three factors were largely conducive to this—the rapid economic upswing of

China and India (two sleeping giants of the past century), the powerful upsurge in the demographic potential of the Islamic world, and the demographic decline in the area where Western cultures are widespread, which caused a securi-

ty crisis and gave rise to a nervous reaction in the West to the risks and challenges in this sphere. After becoming involved first in the Afghan, and then in the Iraqi war, the U.S. began to have doubts about the unconditional nature of its leadership in the world, thus giving China and other Asian states (beyond the Near and Middle East) time to catch their breath after the 1997-1998 crisis and show greater initiative in resolving the tasks they faced.

One of the results of this reassessment of the situation is the idea of China's growing "region-forming" role, which being the country with the largest population on the planet, is transforming before our very eyes into the largest world economy. It is a well-known fact that today's economic progress is distinguished by high energy intensity. It is particularly high in the developing Asian economies, such as China and India. The PRC already occupies second place in the world (after the U.S.) in terms of energy consumption.

Energy requirements are one of the reasons China is extremely interested in creating safe conditions for delivering the energy resources it needs

to ensure invariable economic growth. There are doubtlessly other geo-economic and geopolitical factors explaining the PRC's interest in forming and reinforcing regional security all along its borders. A.D. Voskresenskiy sees the increase in the Chinese factor and the country's influence as the reason for the recent contraction of the traditional regions of Northeast, Southeast, South, and Central Asia into a single, interrelated East-Asian regional complex.¹ The formation of Greater East Asia (or Greater China) is still in its infancy. Nevertheless, we should agree both with the analytical substantiation of the author's conception, and with his assertion that such a large regional complex is based not so much on politico-ideological preferences, although they are also important, as on ideas of security and objective patterns of the growing integration under globalization conditions of contiguous, but in the recent past rather isolated and topographically clearly designated, regions.

¹ See: A.D. Voskresenskiy, "Bolshaia Vostochnaia Azia," in: *Mirovaia politika i energeticheskaia bezopasnost*, Moscow, 2006, pp. 26-28, 48-49.

Western Vector of the Chinese Transport and Energy Strategy

Despite the objective formation of regional security and cooperation complexes, we cannot ignore the fact that they are developing in a sphere where entirely subjective political interests and national geopolitical strategies are interacting. In our particular case, the matter concerns the policy of the current PRC leadership regarding the development of the country's remote western and northwestern regions, which are a long way from the central, peninsular land mass and include two autonomous and strategically important regions—Tibet and Xinjiang-Uighur. This is not a new course in any way, rather the emphasis is on speeding up the implementation of an already existing policy.

Completion of the Qinghai-Tibet railway in the summer of 2006 is a very good case in point. It characterizes the achievements being made at the current stage of economic growth. The first branch of this railroad—from Xining, the capital of the province of Qinghai, to Golmud (at the foot of the Tibetan mountain range)—was laid as early as Mao Zedong's time. The line from Golmud to the capital of Tibet (Lhasa) began being built in 2001. The plans entailed laying a route of 1,142 km in length, most of which would pass through a high-altitude region of up to 5,000 m above sea level under condi-

tions of permafrost. The undertaking, which was impressive by all standards, was successfully carried out in five years.²

It is obvious that the current Chinese leadership (fourth generation leaders) is continuing the policy of the past, which implies smoothing out the regional disproportions. At the same time, this special feature of domestic policy extends to foreign policy—the “time link” can also be seen there. Since the end of the 1980s, Beijing has been elaborating plans to lay transportation corridors in the westerly direction. The Xinjiang-Uighur Autonomous Region (XUAR) is to be hooked up to the Soviet Central Asian transport system after uniting it with the main regions of the country by means of railways. This would make it possible to ensure the movement of Chinese freight in the northwesterly direction to the U.S.S.R. and on to Europe. In September 1990, the section of railroad between the province of Gansu and the XUAR went into operation. At that time, a ceremony was held at the border station of Alashankou (Friendship, now Dostyk) where the Chinese railroad network met up with the Soviet. The regular shipment of freight began in 1991, while passenger travel began a year later, along the railroad joining China with Kazakhstan. In 1999, another branch was laid from the capital of Xinjiang (Urumqi) in the westerly direction to the border with Kyrgyzstan.³

Nevertheless, after the disintegration of the U.S.S.R. and the economic crisis that engulfed the post-Soviet space, the PRC's plans to build this bridge between Asia and Europe had to be postponed. In addition, after 1993, when the country began importing crude oil (prior to that it was a net exporter), energy security became a top priority.

Beijing encountered great difficulties in solving this task. China began importing most of its oil from the Middle East. A fleet of tankers delivered a rapidly increasing volume of crude oil to the Chinese ports (mainly those in the south) from Saudi Arabia, Iran, and the Gulf states. By 2000, China's import had increased to 50 million tons. In the next five years, the volumes of oil imported by the PRC dramatically rose, exceeding the forecasts by approximately 40%. In the middle of the decade, the PRC had already imported 160 million tons (3.2 million barrels a day) and continued to depend on the Persian Gulf countries and Africa to supply it with 75-80% of its needs.

China's continued high dependence on oil deliveries by sea—through the northern basin of the Indian Ocean—was due to Beijing's not entirely successful attempts to diversify its sources for obtaining this raw material. The northwesterly direction was particularly attractive to Beijing from the beginning. The improvement of relations with post-Soviet Russia, which occurred in the mid-1990s, made it possible to count on extremely advantageous (from the viewpoint of transportation to the PRC) development of Siberia's large hydrocarbon fields. A framework agreement on planned natural gas deliveries from the Kovykta field (close to Irkutsk) to China was signed by high-ranking officials of the two states as early as 1997. At that time, discussion began of laying an oil pipeline from Taishet through Angarsk (close to Irkutsk) to northeast China (through Mongolia). But the cherished dream of completing this project in three years was not destined to come true.⁴ Incidentally, since the beginning of 2000, the Chinese have been receiving steadily growing volumes of oil from Russia by rail, but these deliveries could not meet their demands and were rather expensive. The share of Russian oil in China's entire import increased to 8%, and the amount of oil to approximately 13 million tons.⁵

² See: W. Lam, “The Qinghai-Tibet Railway: China's New Instrument for Assimilation,” *The Jamestown Foundation, China Brief*, Vol. 6, No. 11, 5 July, 2006, available at [http://www.jamestown.org/publications_details.php?volume_id=415&issue_id=3789&article_id=2371247], 14 March, 2007.

³ See: L. Kondrashova, Ma Wenzhe, “PRC: Choice of Regional Priorities,” *Far Eastern Affairs*, No. 1, 2005.

⁴ See interview with the then head of the YUKOS Oil Company M. Khodorkovskiy, who, judging by everything, was one of the main initiators of the “Chinese” project, *Ekspert*, No. 3, 2000, p. 23.

⁵ See: N. Norling, “Russia's Energy Leverage over China and the Sinopec-Rosneft Deal,” *China and Eurasia Forum Quarterly*, Vol. 4, No. 4, 2006, p. 32.

In 1997, China began importing oil from Kazakhstan, also in tank cars by rail. By the mid-2000s, the amount of Kazakhstani oil shipped by rail reached 4-5 million tons, and in 2007, it is expected to reach 8 million tons. After the plans to quickly build an oil pipeline from the Irkutsk Region fell through in 2003, Beijing was forced to place its main hopes on the prospect of obtaining oil from Kazakhstan, although the Kazakhstani pipeline was twice as long as the intended Russian one.

Despite certain achievements in developing the western and northwestern vectors (at the end of 2005, an agreement was reached with Russia on laying an oil pipeline from Siberia to China, the first stage of which—to the Chinese border—is to be finished by the end of 2008), the Chinese leadership is worried that most of the raw material will continue to be shipped, if nothing changes, along a route that has several bottlenecks—the Bab al Mandab Strait at the outlet from the Red Sea, the Strait of Hormuz at the outlet from the Persian Gulf, and the Strait of Malacca at the entrance to the South China Sea. The last stretch of the tankers' route of almost 1,000 km in length, which lies between the coasts of Malaysia and Indonesia, is particularly narrow.

At the beginning of the 1990s, the northern basin of the Indian Ocean became an arena for pirate activity. Rapacious attacks on merchant ships reached their peak in 2003-2004. As a rule, pirates were not interested in oil-loading ships as such, but they could at any moment become targets for politically motivated terrorist attacks. After the devastating tsunami in December 2004, the Indian Ocean became an "unreliable" place for purely natural reasons as well.

The geopolitical aspect can also be considered significant. U.S. naval forces ensure the safety of the Strait of Malacca, and this could turn into a factor of pressure on their potential adversaries, of which the PRC is one of the most obvious. The projection of American power in the region, where an "invisible axis" of confrontation lies between Beijing and Washington and in which Taiwan is located, the further fate of which could send peace and security sky-high, cannot help but concern the Chinese leadership, which perceives American policy as a strategy of deterrence, geopolitical encirclement, and an attempt to clamp down on China.⁶

This perception of Washington's policy and the demands for energy security can most likely explain the energetic steps of the current Chinese authorities aimed at searching for new ways to ensure the uninterrupted, most economically advantageous, and geopolitically reliable import of raw hydrocarbons. In addition to the Middle East and the Central Caspian Region, the PRC's attention is also being drawn to distant continents, such as Africa (the Sudan and Nigeria) and Latin America (Venezuela, Ecuador, and Argentina). There is nothing surprising in the fact that Beijing has also turned its sights to the region of South and West Asia contiguous to China.

Southwesterly Course

A turn came in 2001, which was rich in dramatic events and significant in terms of global political changes. It is a well-known fact that China has had strained relations with its main neighbor in Asia—India—for more than three decades (from the end of the 1950s to the beginning of the 1990s). The border disputes and conflicts of interests in the zone where their control intercepted in the Himalayas escalated into the short-lived border war of 1962, which Beijing won, and then into its policy of "controllable tension" with respect to its neighbor.

Against this background, Pakistan became the PRC's main partner in South Asia. China's geopolitical policy regarding the region located to the southwest of its borders began to gradually change after the end of the 1980s, but today 1993 marks the time when then PRC leader Jiang Zemin visited

⁶ See: Hu Shisheng, "China's South Asia Policy and its Regional Impact," in: *Major Powers and South Asia*, Islamabad, 2004, pp. 306-310.

India and after which the significance of China's military-technical cooperation with Pakistan began to decline. After passing through several stages, one of which saw a perceptible deterioration in relations with India (during the year after it carried out underground nuclear testing in May 1998), Chinese-Indian interrelations underwent an upswing, the gist of which was competitive cooperation, that is, cooperation in some areas of the international economy, along with politics and rivalry in others.

In the second half of the 1990s, a gloom was cast on the relations between China and Pakistan by the latter's support of the Taliban movement. This support also went indirectly (by means of the Taliban), and very possibly directly too, to the international Islamic radicals headed by Osama bin Laden and his underground network organization, al-Qa'eda. There were also Chinese Uighurs among those who underwent training with radically-minded instructors (in religious schools and seminaries of Pakistan and Afghanistan). When they returned home, they frequently became the instigators of political actions and participated in uprisings, terrorist acts, and sabotage. These phenomena engulfed the XUAR at the turn of the 1980s-1990s and only began dying down slowly afterwards.

After 11 September, 2001, the Pakistani leadership refused to maintain official relations with the government of the Afghan Taliban and dissociated itself from the activity of al-Qa'eda and the religious extremists related to it, including of course the Uighur Islamists and nationalists. In this way, Islamabad's transfer to the international counter-terrorist forces helped to improve its relations with Beijing, which began to be less worried about keeping law and order in the Xinjiang-Uighur Autonomous Region.

The results of the new rapprochement were manifested as early as 2002, when Gwadar, a large deep-water port located to the west of the Makran coast of Pakistan, began being built with the help of the PRC.⁷ The project for turning Gwadar, which is located 100 km from the coastal border with Iran and approximately 400 km to the east of the Strait of Hormuz, into a large seaport has existed since 1964, but Pakistan did not have its own funds to build it and foreign resources were long absent. The potential significance of the Makran coast increased after China began laying the high-mountain highway in 1967 linking Xinjiang-Uighur with part of Jammu and Kashmir controlled by Pakistan (in the region of the Hunjrab pass) through the Karakorum mountain range. The route, which was called the Karakorum highway, was opened in 1978.⁸ Regular movement along it began a little later and reached its full proportions in the mid-1980s. The road along the extremely topographically difficult route was primarily of military-logistic significance. It was widely used in 1979-1989 for shipping weapons, armaments, and other military hardware intended for the mujaheds (fighters against the government troops of Kabul) to the PRC. Incidentally, the route was narrow and for almost six months was closed due to weather conditions.

No matter how difficult movement was along the Karakorum highway, its building was of great symbolic and practical significance. It became a real link between East and South Asia, the first sign of revival of the southern route of the Great Silk Road, the one along which contacts between the Chinese and Indian civilizations were made in the olden days and Buddhism migrated to the East.

India regarded the building of the Karakorum highway as a strategic threat and an attempt to "engulf" it from the northwest. The government statements and protests from the Indian public did not, however, have any particular effect. Since the mid-1980s, the Pakistani leadership, as strange

⁷ See, in particular: N.A. Zamaraeva, "Pakistanskiy port Gvadar v regionalnoi strategii Kitaia," available at [www.iimes.ru/rus/stat/2006/12-11-06.htm]; R.R. Chaturvedi, "Interpreting China's Grand Strategy at Gwadar," *Peace and Conflict*, Vol. 9, No. 3, March 2006, pp. 4-5.

⁸ See: V.Ia. Belokrenitskiy, V.N. Moskalenko, T.L. Shaumian, *Iuzhmaia Azia v mirovoi politike*, Moscow, 2003, p. 118, 175; R.M. Mukimdzhanova, *Strany Tsentral'noi Azii. Aziatskiy vector vneshney politiki*, Moscow, 2005, p. 84.

as it may seem, inhibited a further increase in the highway's role. The country's military dictator, M. Ziya-ul-Hak, took an acquaintance-making trip along it in 1984. He visited the main cities of Xinjiang (Kashgar and Urumqi) and, being a devout Muslim, asked the Chinese authorities to open up long-closed local mosques. It is believed that by meeting the wishes of its then ally in the fight against the U.S.S.R., the Chinese leadership strengthened the Islamists' position. The Hunjrab pass was not opened to border trade until 1993. The volumes of freight along it were long determined at only 1-3 million dollars. Nevertheless, after the above-mentioned turn in Islamabad's policy, the Karakorum highway began to be more actively used to develop both border and regular trade between the PRC and Pakistan.

By 2001, the Chinese-Pakistani trade turnover reached one billion dollars, and over the following years it increased six-fold. This rapid growth fits the overall context of China's movement from Xinjiang in the southwesterly direction. It can be said that at the beginning of the 21st century, Beijing placed special emphasis on developing trade and economic relations and cooperation not only with India, on which the main attention is focused when analyzing the situation in East and South Asia, but also with Pakistan. China invited Pakistani President General Pervez Musharraf to make three official state visits to the PRC—in 2002, in 2003, and in February 2006. In 2004, Pakistani Prime Minister Shaukat Aziz went to China. The Chinese leaders visited Pakistan less frequently and usually combined these trips with visits to India. In the spring of 2001 and 2005, premiers of the Chinese State Council Zhu Rongji and Wen Jiabao came to Pakistan. During the visit of the latter, the two countries signed a Treaty on Peace, Friendship, and Good-Neighborly Relations, as well as 22 agreements on cooperation in the defense, political, trade, and economic spheres.⁹ In November 2006, PRC Chairman Hu Jintao visited Pakistan.

Despite the fact that Washington gave Pakistan the status of the U.S.'s main ally outside NATO (in the struggle with terrorism), China continued to develop multifaceted military-technical cooperation with it. The sides arranged for the joint production of JF-17 airplanes (of the American F-16 class), as well as two state-of-the-art frigates in the Karachi building berth. Moreover, Chinese military hardware, including another three frigates, fighter planes, and other armaments, were delivered to Pakistan.¹⁰

Incidentally, the livelier bilateral contacts between the PRC and Pakistan were not restricted to military-strategic goals. Direct Chinese investments in the Pakistani economy were estimated at the end of 2004 to reach 4 billion dollars. China helped to build more than 100 facilities in Pakistan, at which approximately three thousand Chinese managers, specialists, and builders worked. By the beginning of 2006, the number of Chinese companies in Pakistan rose to 360, and, according to some estimates, they constituted more than half of all the foreign companies.¹¹

Joint efforts are mainly being directed toward building the Gwadar port. The Chinese side agreed to participate in financing both the first and the second construction phases, by providing up to 80% of the expenses. Dredging made it possible for marine vessels carrying hardware for erecting the port facilities to enter the Gwadar bay as early as 2003. According to the data for 2006, the PRC spent approximately 200 million dollars and Pakistan 50 million (approximately 3 billion Pakistani rupees) to build three multi-functional docks.¹²

⁹ See: "Pakistan, China Sign Treaty of Friendship," *Dawn*, 6 April, 2005.

¹⁰ See: T. Niazi, "Thunder in Sino-Pakistan Relations," *The Jamestown Foundation, China Brief*, Vol. 6, No. 5, 2 March, 2006.

¹¹ See: "PM Outlines Incentives for Chinese Investors," *The News International*, 18 December, 2004, available at [www.thenews.com.pk]; "Pakistan an Emerging Economic Hub, Says Musharraf," *Dawn*, 24 February, 2006.

¹² See: S. Ramachandran, "China's Pearl in Pakistan's Waters," *Asia Times Online*, 4 March, 2005, available at [www.atimes.com].

Difficulties with Implementing Projects

Furthermore, the construction work at Gwadar underwent many delays. There were two main reasons for this—the unsettled situation in the province of Baluchistan, where the port is located, and the low efficiency of the Pakistani contract companies, which is largely related to the corruption of officials and the slowness of the bureaucratic machinery.

Baluchistan has been a “sore spot” for Pakistan since the latter came into being in 1947. The desert located to the west of the lower reaches of the Indi (the historical region of Sind) was topographically part of the Iranian foothills, which are culturally and historically closely related to the Persian-Afghan world. The area where the Baluchi tribes reside currently encompasses not only Pakistan, but also the south of Afghanistan (the province of Hilmand), as well as the west of Iran (the Sistan *ostan* and Baluchistan).

The movement for greater independence (real autonomy), which passed through several stages, lost its force and popularity after the end of the 1970s, not becoming revived again until the beginning of this century. Aggravation of the struggle escalated into a series of terrorist acts—assassination attempts on government officials, explosions of gas pipelines, firing on administrative buildings, roads, etc. from grenade launchers. In response, the government sent additional contingents of troops into the province and began engaging in task force-search and counter-terrorist activity. These measures, after taking a certain effect, also increased the scope of the discontent and internal resistance. Leftist organizations, primarily the Baluchi Liberation Front, People’s National Party, and others, traditionally play a leading role in the opposition circles. For tactical reasons, certain elements from among them could, it is believed, coordinate their actions with the Islamists, who raised their heads again at approximately the same time as the Taliban and al-Qa’eda.¹³

The opposition groups functioning in Baluchistan were displeased about the fact that China was helping to build the port of Gwadar, as well as other facilities (in particular a highway connecting Gwadar with Karachi). Chinese specialists working in the province became the victims of oppositionists several times—in May 2004, three Chinese were killed and nine wounded (a total of 450-500 Chinese construction workers were employed there) on the road to Gwadar. In October of the same year, terrorists launched a new attack on engineers from the PRC in Quetta. At the beginning of February 2006, another three Chinese specialists were killed in Gwadar. Almost immediately following this incident, Pervez Musharraf made his above-mentioned visit to China. One of his goals was to alleviate the negative impression left after the terrorist act and convince the Chinese side not to slow down the cooperation rates with Pakistan.

At that time, violation of the deadlines for completing the initial stage of building the Gwadar port became aggravated. According to the agreements, the construction of the first three docks was to be completed at the beginning of 2006, but the Pakistani contractors were unable to finish the work on time. It became clear later that the Chinese engineering port company responsible for building Gwadar intended to send the Pakistani government a bill for 1.6 million dollars for not finishing the construction on time (there was a delay of eight months). The fine was supposed to compensate for the losses incurred, while the company was forced to stand still and not begin its second stage of activity.¹⁴

¹³ See: Z. Haider, “Baluchis, Beijing, and Pakistan’s Gwadar Port,” *Georgetown Journal of International Affairs*, Winter-Spring 2005, p. 97.

¹⁴ See: K. Mustafa, “Delay in Gwadar Port Project Causes \$500m Loss,” *The News International*, 4 January, 2007, available at [www.thenews.com.pk].

Overcoming Difficulties

We should keep in mind that the provisional arc that links Xinjiang to the Arabian Sea through Pakistan is not the only direction that China can essentially choose to resolve the above-mentioned problem of ensuring the security of its oil deliveries from the Middle East and Africa. In addition to the southwest (Pakistani arc), there are several alternative hypothetical routes. One of them is the central route, its outlet from Tibet to the Bengal Straits via Nepal, India, and Bangladesh, but it is too complex in the topographic respect and simply unrealistic in the foreseeable future. Another vector is the route from the southern provinces of the PRC via Myanmar to the Bengal Straits and the Andaman Sea. The route from Kunming (the Yunnan province) to Sittwe on the Myanmar coast of the Bengal Straits is still at the planning stage. Both cooperation with regional partners, in particular with India (the Kunming initiative of cooperation among China, India, Myanmar and Bangladesh), and independent actions, which could be perceived in India as an attempt to bypass it from the opposite direction to Pakistan, are possible during its development.

In 2004, Beijing regarded the project for building a large oil refinery on the western side of the Thai part of the Peninsula of Malacca and building a land bridge—an oil pipeline of 220 km in length ensuring access to the Gulf of Siam—as another alternative in order to avoid the bottleneck in the Strait of Malacca. However, the dramatic rise in world steel and rolled pipe prices in 2005 made it necessary to postpone the financial and technological estimates related to this project.¹⁵

For all the above-mentioned reasons, the southwest vector in China's strategy appears to be the most preferred for ensuring energy security. It is worth noting that the situation in Baluchistan settled down by the fall of 2006 (after the death in August of Akbar Khan Bugti, one of the main instigators of resistance to the government).

The visit to Pakistan by PRC Chairman Hu Jintao in November entirely justified the hopes of the Pakistan side. The question of insisting on a penalty for the delay in the construction work at the Gwadar port was closed. Pakistan and China came to terms on new deadlines for completing the first phase of construction. The opening ceremony took place in March 2007, and the first phase was to go into operation by the end of the year.

During the visit, the sides confirmed their intention to begin widening the roadbed of the Karakorum highway from 5-10 to 15-30 m. A principal agreement on this (a memorandum of understanding) was signed in June 2006. The cost of the project, which will primarily be carried out by a Chinese road and bridge building company, is estimated at 794 million dollars.

The Pakistani president suggested building a Karakorum railway, but at this stage the PRC considered it only possible to modernize railroad communication from the terminal in Havelian in the north of Pakistan to Sind (with a branch to Gwadar).

Turning the entire length of a high-mountain road into a multi-lane highway or laying a railroad conduit in extremely difficult topographical and climatic conditions are extremely complicated tasks, but building the Qinghai-Tibet railway is making the government take these plans very seriously.

Even without taking into account the increased capacity of the trade and transport corridor between the north of Pakistan and northwest China, reciprocal trade is expected to almost double by 2008 (to 8 billion dollars), and to 15 billion dollars in the next five years, with an increase in the flow of goods being shipped via Karakorum.

¹⁵ See: C. Hirst, *China's Global Quest for Energy*, Wash., 2006. A Report for the U.S. Government, p. 3, available at [www.iags.org].

We will emphasize again that the trade and transport element of the southwest Greater China arc is being supplemented with an energy component. If the designated construction plans are carried out, the Gwadar port will have a total of 12 docks (sea terminals) in the relatively near future, three of which are intended for oil tankers. Tankers and other large seafaring vessels (including floating bases) will be able to enter Gwadar thanks to the plans to dredge it to a depth of 14.5 m. Crude oil, reloaded onto special trucks and/or into rail tank cars, will travel on through Pakistan right to the PRC.¹⁶

There are plans to build a large oil refinery with a capacity of 10.5 million tons of raw material a year in the region of the Gwadar port. The Chinese side has already announced its desire to participate in this construction and, according to the reports in the Pakistani press, is willing to invest up to 12.5 billion dollars in the Gwadar petrochemical complex. It is presumed that in the future, the capacity of the above-mentioned enterprise will increase to 21 million tons, and the building of yet another plant will make it possible to raise the refining potential of the Gwadar industrial zone to 30 and 40 million tons a year.

The shipment of petroleum products by land will undoubtedly be more economically justified than the transportation of crude oil. At the same time, the project to lay an oil pipeline, as well as a gas pipeline, along the Karakorum route (parallel to the highway) is just as promising and apparently technically and economically more realistic. In so doing, plans are appearing in the press for transporting oil from Saudi Arabia and building a Saudi-Chinese trans-Karakorum oil pipeline. Pakistani officials are making proposals about the possibility of transporting oil from Iran and Africa along the same route.

At the beginning of 2007, all of these intentions became even more realistic due to the decision of the Pakistani government to transfer Gwadar to the management of the International Administration of the Singapore Port. This company is the biggest operator of port facilities (20th in eleven countries from Singapore to Holland). It agreed to invest 4 billion dollars in building the second and third lines, after the above-mentioned Chinese engineering port company finishes building the first.

Although China, in the words of Pakistani Prime Minister Shaukat Aziz, did not make any claims to future development and management of the port (in contrast, we will note, to the previously reached agreements), it is still very interested in developing Gwadar, and its influence on the building and further fate of the energy and economic center being created on the Makran coast is extremely significant, if not decisive.

Possibilities of Expanding the Southwest Arc

The trade and transport and economic significance of Gwadar, and of Pakistani Baluchistan as a whole, is not limited just to the northwesterly direction, toward the PRC. The plans to link Gwadar with Iran and Afghanistan by means of highways can be carried out with relative ease. Roads can be built from the port to the northeast, parallel to the Pakistani-Iranian border. It links Gwadar with the Saindak region, where significant copper and gold reserves have been found. Incidentally, Chinese companies have already received a concession for their development. Transportation routes from Saindak, which are linked to the highway built as early as the 1960s leading from Karachi to the Iranian border, stretch to the Iranian town of Zahedan and Afghan Kandahar. From the latter, ship-

¹⁶ See: "China Interested in Himalayan Pipeline," *The News International*, 24 October, 2006, available at [www.thenews.com.pk].

ments from Gwadar could reach Central Asia (Turkmenistan and Uzbekistan) by a shorter route along the Afghan ring road (it is being actively restored and reconstructed with Western, mainly American, help).

Iran and Afghanistan's involvement in the southwesterly enlargement of Greater China meets their vitally important interests. A significant percentage of the crude oil imported from the Persian Gulf zone is Iranian, amounting to 13.6% in 2004. According to some information, Iran later occupied first place among the oil deliverers to China. Beijing showed an interest in assimilating the new fields discovered in Iran (primarily Yadavaran, the reserves of which are assessed at 2.7 billion tons). An agreement on China's participation in this project was reached in 2004, and a contract was signed in 2006. It is characteristic that along with the state China Petroleum & Chemical Corporation (51% of the shares), the state oil and gas corporation of India (25%) and the Shell Company (20%) belonged to the concern. Production is expected to reach 7.5-15 million tons a year after 2009.¹⁷ Another promising Chinese-Iranian cooperation project is assimilating the largest gas field, North Pars. The transaction is preliminarily estimated at 20 billion dollars. Long-term plans also include building an oil pipeline 368 km in length from Iran to the north—to Turkmenistan and Kazakhstan—with a hookup to the Kazakh-Chinese pipeline. This route, which forms a wide arc, will make it possible to avoid the dangers of transporting energy resources by sea.

Judging by everything, Beijing approves the plans to build a gas pipeline from Iran through Pakistan to India. This project has been at the coordination stage for several years (since Indian-Pakistani relations warmed up in 2003). The cost of the construction is currently estimated at 7.5 billion dollars. Despite the rather hefty expenses, the governments of the three countries say they are willing to begin carrying out the mentioned development. The main obstacle is ostracism, which Iran is subjected to by the U.S. due to its nuclear program. At the beginning of 2007, Islamabad openly rejected America's involvement in resolving this question. Pakistani officials (along with Indian), probably with China's moral support, held a series of talks with the Iranian side regarding the building of a gas pipeline. The Pakistanis and Indians were long unable to come to terms on the price of Iranian blue fuel, but in the end a compromise seemed to be reached.

If trilateral (Iranian-Pakistani-Indian) cooperation regarding building of a gas pipeline is successful, it could eventually develop into cooperation with the PRC in this sphere: routes can be laid there both from India, and from Pakistan.

It is known that India and Pakistan are competing over restoration of Afghanistan's economy, as well as in the region's integration programs from the Indian Ocean to the center of Eurasia. In counterbalance to the project for building the Gwadar port and the vertical leading from it to Central Asia, India is helping Iran to build the port of Chah Bahar located at the entrance to the Persian Gulf. There are plans to improve the road leading from it to Zahedan, with further access to Afghanistan (to Hilmand and Kandahar). Despite the competition of these projects, behind which Indian-Chinese rivalry is also seen, the existence of various routes linking Afghanistan (and through it also Central Asia) with the World Ocean does not contradict the development goals of this region, which can be described as enlarging Greater China or Greater East Asia in the southwesterly direction.

C o n c l u s i o n

It should be emphasized again that the PRC's growing economic potential is creating a strong field of regional and interregional interaction around it. China's economic development at the begin-

¹⁷ See: A. Maleki, *Iran and China: Dialogue on Energy*, Harvard University, 15 May, 2006, available at [bcsia.ksg.harvard.edu], p. 30.

ning of the 21st century is characterized, among other things, by the following two special features. The existence of large amounts of cheap and disciplined workers in combination with contemporary technical and technological achievements is allowing the PRC to implement transport construction projects under complicated and extreme conditions, which are difficult to realize within the framework of any other sociopolitical and national system. This is opening up opportunities for assimilating the mountainous and high-altitude areas of East as well as Central Asia (Tibet, Pamir, and even the Himalayas).

The second special feature consists of China's independence on the import of energy resources. At this stage, its economy is feeling an oil pinch, but in the near future, the PRC will in all likelihood also become a net importer of natural gas, which can replace oil and petroleum products as the primary source of energy.

Both of these features are making Beijing's plans to assimilate the mainland space near and around China, which is rich in oil and gas deposits, pertinent and vitally important. In addition to using the oil and gas fields to the west (the Central Asian-Caspian region) and northwest of it (the West and East Siberian regions), the building of energy transportation corridors from Xinjiang to the southwest—to the higher quality and cheaper hydrocarbon supplies of the Persian Gulf zone—is also promising certain prospects.

The creation of an energy corridor is an extremely important, but not the only argument in favor of the idea of a southwest projection of the Chinese economy. In addition to electric power, the trade and transportation component of the route from Xinjiang to the Arabian Sea is also significant. If the Karakorum highway is improved, the high-mountain route will become rather a prominent artery, although not all the year round, linking the center of Eurasia with the World Ocean.

Assimilation of the Makran coast of Pakistan is also very important from the viewpoint of the PRC's geopolitical and military-strategic interests. This will make it possible for Beijing to designate its presence close to the Persian Gulf, Red Sea, and Horn of Africa, in so doing challenging the domination of the U.S. and its allies in the region, which is a key one due to safety of the sea routes of great importance to China. The reasons for the rivalry with India, which is building up its naval might in the northern basin of the Indian Ocean, are also playing their role, particularly since India is likely to form a strategic block with the U.S., Israel, and the European states.

It is extremely curious that at this historical stage China's unpublicized intentions to build a route from Xinjiang to the southwest do not seem to contradict America's Expanded Central Asia or Greater South-Central Asian Expanse plans. This is explained by the fact that the U.S. and its NATO allies are taking responsibility for the foot work to establish civil order and security in the interior regions of this wide belt, which stretches from Central Asia in the north to Afghanistan and Pakistan in the south. The West is directing most of its efforts and resources in Afghanistan to these purposes in particular, without apparently giving the necessary attention to improving the economy or resolving social tasks. It is possible that in three to four years, after creating a national army in this country and convincing everyone of its ability to maintain relative peace and order, the U.S. will withdraw most of its armed forces from this country, leaving other states and international corporations to continue economically developing the Afghan market, as well as the country's natural resources. If this hypothetical alternative comes to pass, China will most likely have an advantage over other global and regional players.

The policy for ensuring stability and peaceful coexistence, as well as fighting terrorism, separatism, and extremism also fully meet Russia's interest. It is advantageous for Moscow to support the involvement of foreign forces which are not aimed at directly or indirectly ousting it from the geopolitical and geo-economic field of Central Eurasia (Central Asia and the Southern Caucasus). Precisely these territories can be considered part of the enlarged regional system of Greater Russia in the future. For several reasons, the Kremlin's interests are irreversibly shifting from the West to the East of Eurasia

and are orienting its regional (Eurasian) policy toward the south and southeast. In so doing, Russia has two flanks—the southern (Caucasian-Iranian) and the eastern (Far Eastern-Chinese), between which the central (Siberian-Central Asian) is located. All of them are interrelated, differing only in their specific characteristics.

In the central vector, Moscow is coming up against rival projects—American and Chinese; the outcome of this rivalry is difficult to second guess. We all know that elaborating details can create all manner of pitfalls, and the success of a particular program depends not on its analytical beauty and perfection, but on the efficiency of the systems (political, economic, social) putting it into effect.

At this stage, all the geopolitical and geo-economic mega-regional projects do not seem to be mutually exclusive. They fit into the ideas of open regionalism, and most likely supplement each other, interact, and correlate, rather than contradict. The reciprocal application of macro-regional constructs is opening up opportunities for competitive cooperation, as a result of which everyone should win (although not to the same degree). This “competition in interaction” model, or efficient rivalry, corresponds to the ideas of multilateral cooperation security in counterbalance to collective leadership cooperation as such.¹⁸

In conclusion we will note that the economic transformation of Asia’s mainland expanses is still at the initial stage, despite the fact that theoretical elaboration has been going on in this area for a long time, and specific drafts and memorandums on understanding date back to the beginning and middle of the 1990s. All the same, despite the objective difficulties of contracting regions and forming political-economic macro-spaces in this part of the world, steps are obviously being made in the right direction. However we should not expect any rapid results. Nor should we exclude long halts caused by the combined effect of diverse political, economic, and scientific-technical factors.

¹⁸ For a model of such a security system, see: A.D. Voskresenskiy, op. cit., p. 110.

CHINA’S POLICY WITHIN THE SHANGHAI COOPERATION ORGANIZATION

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The Shanghai Cooperation Organization (SCO) as a new international institute has gained a firm foothold in the political life of Central Asian countries. Several large projects are currently being implemented under the SCO’s auspices that can bring far-reaching changes in the region, eventually *altering the balance of forces on the Eurasian continent in favor of China*. The SCO’s especially promising projects include a SCO free trade area, to be created by 2020, and a regional antiter-

rorism structure, the first of a kind in the Central Asian region. Furthermore, the SCO has started showing ambitions of a political player whose interests extend beyond the collective national interests of its member countries and have a pronounced geopolitical character.

The Organization is striving to encompass the key areas of activity in Central Asia, at the same time working to consolidate the member countries' foreign policy efforts in dealing with common tasks (one example of such cooperation is the decision to bring the SCO into the peace process in Afghanistan). As of late, the Organization has been taking practical steps to become a system-forming factor, a paradigm of regional development ensuring conditions for the advancement of the Central Asian region—its security and effective interaction between its member states. There is good reason to suggest that without the SCO, these two factors in Central Asia's development would be less organized: Both security and multipartite cooperation required the establishment of a "center of gravity" in the region, such as the SCO.

Today, the SCO is also an important factor in a general restructuring of interstate cooperation mechanisms, political configuration and the security situation in Central Asia, as the groundwork for a new economy is being laid. A multilateral economic and security interaction mechanism that is evolving within the SCO has a positive impact on the development of relations between individual member countries, as well as their interaction with extra-regional players and other international organizations. These relations are being built on what is seen as collective priorities. But taking into account the real role of China and Russia, the SCO initiatives require a more thorough analysis.

Alongside the changes in interaction between countries in the region, the SCO has yet another important effect on the Central Asian republics and the world as a whole. The SCO "introduces" China to Central Asia as an inalienable element of regional politics and economics, strengthening its positions, and considering the SCO's ambitions and its potential as a global organization, it also provides a major channel for China in its aspiration for the role of a new regional and global power.

Today Beijing has entered an active phase of using the SCO in its own interests, attempting to change the geopolitical balance and the system of internal and external relations in the Central Asian republics that have evolved over the 15 years since the disintegration of the U.S.S.R. Kazakhstan is actively involved in the SCO project, proceeding from its own national interests; but from every indication, the continuation of the "Shanghai process" will have a not entirely favorable impact on Kazakhstan's security. The negative trends that are evolving with respect to the Republic of Kazakhstan stem from the place that the PRC is striving to take in the Central Asian region, as well as the goals that the Chinese side has set itself, and that it intends to achieve through the SCO.

- **At Stage 1** of the Organization's development, there were considerable differences within the Chinese leadership over prospects for the SCO. A "conservative wing" regarded it as a mechanism for repulsing threats to China's security and integrity from Central Asia, in particular the radical Islamist groups based there and seeking to take control of China's north-western provinces through their secession. But the liberal pragmatic part of the Chinese establishment did not believe in the viability of the SCO, seeing it as little more than a propaganda vehicle that Russia wanted to use for stopping the expansion of NATO's zone of responsibility and the U.S.'s influence in Central Asia, and that the SCO did not have any long-term importance for China.
- **At Stage 2**, Beijing, after all, set the goal of preserving the SCO and using it not only for repulsing separatist "attacks" but also to advance Chinese economic interests and political influence in Central Asia. The advocates of the SCO argue that China could formally become

the Organization's leader by hosting its headquarters and thus strengthening its political positions in the region. Skeptics stressed that it was still unclear exactly how the SCO could deal with tasks that were of vital importance for China, on the practical level, also suggesting that the SCO was an element of Russia's policy of containing China in the Central Asian region.¹

Amid such divisions, Beijing pursued a multi-tier policy with respect to the SCO:

- supported formal initiatives designed to expand the SCO's scope of activity and its consolidation on the organizational level;
 - sought "moderation" so as not to provoke a retaliatory reaction from Russia, which could have seen Beijing's "activism" as a threat to its interests in Central Asia;
 - at the same time started intensifying its activity in the trade and oil and gas sphere; and
 - worked to strengthen bilateral contacts with each of the SCO member countries.
- The events in Kyrgyzstan in the spring of 2005 marked the start of **Stage 3** in the evolution of Beijing's strategy toward the SCO. First, Beijing proved to be unprepared and did not know exactly how to respond to the events in Kyrgyzstan, and second, it saw that the SCO was, on the whole, not ready for collective actions amid an ongoing political crisis in one of its member states. China was not only concerned by the future of Chinese-Kyrgyz relations and the negative fallout from a power vacuum in Kyrgyzstan for regional security, but also saw the danger of extremist forces within Kyrgyzstan's 50,000 strong Uighur diaspora raising their profile.²

The events in the Republic of Kyrgyzstan—against the backdrop of the Color Revolutions in Georgia and Ukraine—prompted Beijing to take a broader view of the ongoing developments in the entire post-Soviet area in the context of Russian-U.S. partnership/rivalry and their possible implications for China's interests.³ Beijing was concerned by the turn of events in the CIS area, including within the SCO. The PRC is seriously concerned by the possibility of Moscow giving the U.S. access to the CIS area, while this does not at all correspond to the Chinese interests in the region. At the same time, China is faced with a hard choice—follow Russia, play its "own game" or bet on the American factor.

In reality, however, Beijing is moving along all of these three lines at once. It shows readiness for dialog with Russia on the SCO's political stability. It is starting to prepare for an unfavorable scenario in other countries and developing its own line of conduct with respect to the SCO. Its components will include proactive Chinese diplomacy, both formal and informal, and the development of dialog with the U.S. on Central Asia's problems. China would also like to see tripartite—Russia-U.S.-China—cooperation in Central Asia, although realizing that thus far this is an unviable proposition.⁴

The Chinese position is that the struggle between foreign powers and the existence of different political organizations in the region has a negative impact on its development. But it had to join this struggle, pursuing its own interests. The existing conditions tie China to the global trading system,

¹ See: Li Lifan, Ding Shiwu, "Geopolitical Interests of Russia, the U.S. and China in Central Asia," *Central Asia and the Caucasus*, No. 3 (27), 2004, pp. 141-142.

² See: Ya. Berger, "China's Grand Strategy in the Eyes of American and Chinese Scholars," *Far Eastern Affairs*, No. 1, 2006.

³ See: Ji Zhiye, "Novye problemy kitaiskoi politiki v otnoshenii gosudarstv Tsentral'noi Azii," in: *Kitai i Tsentral'naiia Azia: sotrudnichestvo s tseliu obespecheniia regional'noi bezopasnosti i protsvetaniia*, Documents of a Scientific Conference, 13-14 September, Urumqi, 2005, pp. 18-19.

⁴ See: R. Mukimdzhanova, "Central Asian States and China: Cooperation Today and Prospects for Tomorrow," *Central Asia and the Caucasus*, No. 4 (28), 2004.

compelling it to play a more active and responsible role in the outside world, on the one hand, and setting itself the goal of taking control over new external sources of hydrocarbons that are now rather distant from China's economic growth points, on the other hand. Should the PRC fail to occupy a privileged position on the global scale—that is to say, should it fail to win recognition as a global power—the country will be doomed to increasing dependence on external political and economic conditions.⁵ Therefore, China's current strategy is driven not only by the ambitions of the country's Communist leadership but primarily by the objective needs for development.

In so far as geopolitics hinges on the lineup of external forces, regional and global strategy, the geopolitical configuration that had evolved in Central Asia after 2001 had important implications for China's policy. One of its outcomes was that the geopolitical space with respect to the PRC had substantially shifted in the direction of the Central Asian region.

Analysis of regional factors helps better understand China's interests.

The security factor. Initially, in its relations with the newly independent states of Central Asia, Beijing proceeded solely from its own security interests.

As is known, the first five to seven years of the 1990s saw a rise in separatist movements in the Xinjiang province. In that context, the Chinese leadership was faced with the task of ensuring the security of the country's western borders by promoting "moderate" cooperation with Xinjiang's Central Asian neighbors. Therefore, China deliberately limited its interaction with Kazakhstan and other Central Asian countries to cooperation in sphere of antiterrorism and counter-separatism, which were priorities for it at that time. Trade and economic contacts between the countries' borders areas were developing spontaneously.⁶

As the PRC strengthened, advanced its economy, and gained international weight, Beijing's interests in the region also expanded, including its security interests.⁷ Today, reading into the U.S. and NATO policy attempts to "encircle" continental China with the aim of "containing" its further growth, the Chinese leadership still sees Central Asia as a key factor in its security. Furthermore, the importance of this factor has grown considerably in the past few years due to the complex geopolitical situation in the region as a whole and China in particular. As the risks and threats intensified, Beijing had to face up to reality: it is impossible to build and advance a viable national security system without factoring in Central Asian.

Its national security interests are compelling the PRC to intensify cooperation through the SCO and to expand its presence in the region. An ideal situation for the Chinese side would be to deepen relations and achieve a level of influence in Central Asian that would enable it to control the overall situation in the region and regulate the principal trends in the security sphere.

The economic factor—the need to develop western parts of China. The adoption of a strategy for large-scale development of the PRC's western region in the late 1990s marked a significant shift in Beijing's interests with respect to Central Asia. By that time, Beijing had clearly defined the role of its western region in the process of the country's general modernization: 12 administrative entities of the western region had started playing a key role in the country's development. It became evident that unless the country's leadership managed to lift this vast region (accounting for almost one half of the PRC's territory) out of depression, that would jeopardize not only the economic but also sociopolitical security of China.

⁵ See: Zhang Yunling, "Dui Wo Guo Wai Xiang Fazhan Zhanlue de Fenxin yu Fansi (Analysis of China's Extensive Development Strategy)," *Dangdai Ya Tai* (Studies of the Asia-Pacific Region), No. 8, 2006, pp. 3-11.

⁶ See: Zhao Huasheng, "China, Russia, and the U.S.: Their Interests, Postures, and Interrelations in Central Asia," *Central Asia and the Caucasus*, No. 5 (29), 2004, p. 116.

⁷ See: Pan Guang, Hu Jian, *21 Shiji de Di Yi Ge Xin Xing Qucheng Hezuo Zuzhi. Dui Shanghai Hezuo Zuzhi Zonghe Yanjiu* (The First Regional Cooperation Organization of a New Type in the 21st Century. Comprehensive Analysis of the SCO), Beijing, 2006, pp. 21-24.

China has assigned the Central Asian resources strategic importance in the implementation of its regional development strategy. Indeed, to invigorate economic activity in China's western provinces, it would be expedient to channel the activity of local producers in the direction of neighboring Central Asian countries, as well as Russia and Mongolia: although they do not measure up to the level of developed economies, they are good enough for China's western provinces and can effectively stimulate their progress.⁸ Furthermore, it is rather difficult for these PRC provinces to compete with the enterprises based on China's eastern coast, which are a general rule oriented toward more developed markets. Therefore, Central Asia and the Russian Federation is the only unoccupied niche for the economy of China's western provinces.

The energy factor. Another powerful argument in favor of China's proactive policy toward Central Asia is its energy resources.

As is known, in 2005, the PRC's economy consumed more oil than did the U.S. economy.⁹ The country's energy shortage is increasing, and despite special government programs designed to develop domestic extractive sectors of industry, the Chinese economy is becoming more and more dependent on the import of hydrocarbons. And although Beijing does not intend to change the principal routes for oil imports in the foreseeable future, it is increasingly inclined to diversify hydrocarbon sources.¹⁰

Considering that China's principal oil suppliers are Persian Gulf countries, regional instability, alongside a complex of problems caused by the U.S.'s Middle East policy, is prompting Beijing to accelerate the search for strategic solutions in this area. An additional factor in the invigoration of energy cooperation with Central Asia is the PRC's aspiration to boost hydrocarbon production by Chinese companies through an expansion of their presence in various parts of the world.¹¹

The PRC's choice in favor of Central Asia as a convenient object for the application of Chinese oil producing companies' resources is only natural.

The geopolitical factor. Securing the role of a regional center of force in Central Asia will enable China not only to secure its "rear areas" by ensuring the security and development of Xinjiang and other western provinces, but also to deal with outstanding geopolitical problems. Its geopolitical domination in Central Asia will provide Beijing with additional sources for enhancing its strategic power by:

- strengthening military-political security (due to Beijing's geopolitical domination in Central Asia, sources of potential threats will automatically retreat behind the Caspian Sea, which on the whole places China's territory beyond the reach of long-range strategic missiles from the west);
- securing extended control over the situation in Central Eurasia (due to its geopolitical domination in Central Asia, China will be able to obtain additional instruments to advance its influence to the Middle and Near East, South Asia, and the Caucasus, as well as to establish control over the situation in Afghanistan);
- gradually ejecting the U.S. from the Asian part of the continent, which would give China additional security guarantees in the event of a conflict over Taiwan (in the long term, the scenario for the ejection of the U.S. looks quite realistic, given the potential for China's economic influence in Asia: the strengthening of the PRC's economic influence will inevitably strengthen its political role as well);

⁸ See: Zhang Ming, "San Jinrong, Zhong Ya Guojia Fazhan Dui Zhongguo Xiang Xi Kaifang Zhanlue de Yinxiang Pinxi (The Impact of Central Asian Countries on the Development of China's Western Province)," *Eluosi Zhong Ya Dong Ou Shichang* (The Market of Russia, Central Asia, and Eastern Europe), No. 8, 2006, pp. 9-20.

⁹ See: Li Fenglin, "Potentsial energeticheskogo sotrudnichestva mezhdru Kitaem i Kazakhstanom," in: *Kazakhstan i Kitai. Strategicheskoe partnerstvo v tseliakh razvitiia*, Documents of a Scientific Conference, Almaty, 2006, pp. 36-37.

¹⁰ See: Sun Zhuangzhi, "Tuidong Qucheng Jingji Hezuo (Advancing Regional Economic Cooperation)," *Renmin ribao*, 9 June, 2006, p. 7.

¹¹ See: L.M. Muzaparova, "Kazakhstansko-kitaiskoe energeticheskoe sotrudnichestvo: otsenka potentsiala i napravleniia razvitiia," in: *Kazakhstan i Kitai: strategicheskoe partnerstvo*, Documents of a Scientific Conference, IMEP, Almaty, 2006.

- expanding geographic space for its further economic growth (the PRC will have better access not only to post-Soviet but also European markets);
- receiving guaranteed deliveries of energy and other strategically important mineral resources;
- securing additional leverage over Moscow, etc.

At the same time, even though security and geopolitics in the context of its relations with Central Asia are of critical importance for Beijing, economic and energy factors have considerably strengthened, serving Beijing's security interests and providing an incentive for its advancement in the region, as well as in the SCO.

One weighty argument in favor of a review of its Central Asian policy is that China's energy security may to a certain degree be dependent on the will of Washington, which will control export oil flows from the Caspian region.

In the present context, it becomes evident that from Beijing's perspective, it is all the more important to secure a privileged position in the region—as a means of preventing the growth of U.S. influence, which could hinder the implementation of the PRC's plans, as well as in the interest of developing its energy sector.¹² Some experts believe that all of this will eventually lead to fierce competition, primarily between the U.S. and China.¹³ This scenario is borne out, among other things, by the Chinese view that “due to considerable differences in culture, history, etc., the United States has to go a long way in Central Asia” before it can occupy a more or less influential position here, while “cooperation” along this path with Russia and China is a “necessity” or rather inevitability for Washington.¹⁴

With these geopolitical trends continuing, the Central Asian region might soon become a source of risks to China's security. In so far as Beijing treats the changes that have occurred following NATO's growing presence in the region as long-term threats to its security, the Chinese leadership chose a new tactical line. This line is marked by a striving to expand its sphere of influence as far as possible, to drive its Western competitors from some important areas of cooperation, and to provide increasing support to the Central Asian republics. To this end, China intends to tap such resources as financial and economic activity, cooperation with the RF, the SCO, etc. Although China maintains that its policy with respect to border states “does not pursue the goal of restoring vassal like relations with neighboring countries like those that existing during the Chinese empire,” nor seeks to “establish hegemony or leadership in the region,” and furthermore, that “the PRC completely respects the prevailing architecture in the Asian region and respects the U.S.'s presence and interests in this region,”¹⁵ the real logic of such policy presupposes the aspiration by any state to secure geopolitical advantages in the interest of tackling national development problems. This aspiration strengthens considerably if it applies to states that are riding the crest of the wave of a national upturn and development, as the PRC is today.

Analysis of statements and conclusions that are being made today by leading Chinese think-tanks, which have a substantial impact on Beijing, suggests that it has reviewed its Central Asia strategy. And although there is no consensus within the Chinese establishment on the issue of China's strategy toward the United States, the general vector of its Central Asian policy must have been agreed to. In this connection, the decision was made to include the goal of acquiring strategic advantages in the Central Asian region among the priorities of China's Foreign Ministry. Therefore, Beijing's principal

¹² See: Hu Hao, “Tendentsii energodiplomatii mirovykh derzhav i perspektivy kitaisko-kazakhstanskogo energeticheskogo sotrudnichestva,” in: *Kazakhstan i Kitai. Strategicheskoe partnerstvo v tseliakh razvitiia*, pp. 40-41.

¹³ See: M.K. Bhadrakumar, “Foul Play in the Great Game,” *Asia Times*, 12 July, 2005; A. Cohen, “Great Games' in Central Asia,” *Washington ProFile*, 16 July, 2005.

¹⁴ From a presentation by Dr. Shao Yuqun (The Shanghai Institute of International Studies, the PRC) at the Third Annual Almaty Conference on Security and Regional Cooperation at the Kazakhstan Institute of Strategic Studies under the President of the Republic of Kazakhstan, 21 June, 2005.

¹⁵ Liu Qinghai, “KNR: geopoliticheskaia sreda i vneshniaia politika dobrososedstva,” *Problemy Dalnego Vostoka*, No. 2, 2006, p. 38.

goal with respect to Central Asia today and in the medium term is to reorient the region away from the West and toward China.

So whereas in the not so distant past China's policy toward Central Asia was marked by inertia, now China is an interested, proactive regional player with a target specific strategy, at least as far as Kazakhstan is concerned.¹⁶

At the same time, although China recognizes Central Asia as a key region, this will manifest itself not in official statements or trappings of public diplomacy, but in practical activity, which is oftentimes off limits to broad sections of the public. In this case, China can use the entire arsenal of economic and political instruments to advance its interests.

An open demonstration of its interests in the region is at odds both with Beijing's tactical line and with Chinese diplomatic tradition, in accordance with which the political weight of all Central Asian states taken together is insufficient for China to freely pursue its interests.¹⁷

The invigoration, in Central Asia and the CIS, of nongovernmental organizations supported both by the U.S. administration and other sponsors, as well as Russia's plans to form a pro-Russian opposition in the CIS and Central Asia, pose a new challenge to China. China objectively cannot play on the Central Asian field, where NGOs are active, only by using state resources and technologies. In this context, some Beijing analysts suggest that China should have its own nongovernmental channels for liaising with political elites in CIS countries, and that it is equally important to form a pro-Chinese opposition. But this can be done without damaging official relations with Central Asian countries only through nongovernmental contacts.

Pro-Chinese NGOs could use not so much slogans such as "freedom of expression" or "fair elections," which are already being actively used by pro-U.S. NGOs, as other components of democratic society, specifically observance of law, the fight against corruption, and political maturity of citizens (i.e., raising their awareness about the need to uphold their own political views and express them through electoral procedure). In playing according to new rules in Central Asia, China can rely on goals that it shares with the U.S. and Russia—i.e., preventing political destabilization and the coming to power of Islamist forces.

In appraising China's position, it should be borne in mind that the U.S. will most likely use regime change in the CIS region to strengthen American positions as a counterweight to Russian and Chinese positions, including SCO positions in Central Asia. China as the main object of "containment and engagement policy" may become Washington's main target. But this game will be played according to new rules. The U.S. will be betting not so much on supporting a specific regime as on ensuring a stable procedure for regime change through elections. At the same time, Washington will be strengthening the role of NGOs—no matter whether they are oriented toward the Bush administration or forces that are in opposition to Bush in the U.S.

The new rules of the game require a commensurate response from China. It will be difficult for Beijing to ensure its interests in Central Asia with old methods—that is to say, by relying on state channels of communication with incumbent regimes.

The problem is that the events in Kyrgyzstan have shown the non-viability not only of the Collective Security Treaty Organization (CSTO) but also of the SCO, damaging China's image in the eyes of the Central Asian political elites. The SCO headquarters is in Beijing, and Beijing is expected to put forward new initiatives to deal with crisis situations in Central Asia. In these conditions, China will be "drifting" toward the general realization that it is important to assume responsibility for ensuring stability in Central Asia. However, not only by supporting ruling regimes, but also with the help

¹⁶ See: Shi Ze, "Relations Between China and Central Asian Countries Face Opportunity of All-Round Development," *China International Studies*, Winter 2005, p. 83.

¹⁷ See: J. Melet, "China's Political and Economic Relations with Kazakhstan and Kyrgyzstan," *Central Asian Survey*, No. 2, 1998, p. 243.

of more sophisticated technologies and such slogans as “the rule of law,” “the fight against corruption,” and “promotion of political activism and responsibility of citizens for their choice,” which have a special relevance for Central Asia today.

Based on these premises, China has concentrated in the SCO an array of political and economic instruments to implement its policy in Central Asia. SCO mechanisms enable it to follow a uniform political line across the region without having to spread its resources thin on the ground.

Therefore, in the context of its SCO involvement, China can pursue the following important goals in the short and medium term.

1. Get actively involved in regional economic and political cooperation processes in Central Asia on a permanent basis.

- 1.1. Advance comprehensive cooperation within the SCO framework.
- 1.2. Expand interaction between the SCO and other international organizations active in the region (EurAsEC, the CSTO).
- 1.3. Get Kazakhstan involved in new large-scale joint projects to advance bilateral cooperation.
Today, Beijing sees Kazakhstan as the most “convenient” and promising partner in the region. Closer cooperation with Astana would help China in pursuing many of its goals in Central Asia and the SCO.
- 1.4. Maintain its image as a stable and secure neighbor, capable of providing external security guarantees to the Central Asian countries.

2. Contain U.S., NATO and other external impacts on the Central Asian countries.

- 2.1. Prevent a vacuum or shortage of power in the Central Asian countries, as well as in the region as a whole.
- 2.2. Maintain the status quo in relations with the United States, Great Britain, and other Western powers, while avoiding conflict situations and exacerbation of rivalry.
- 2.3. Maintain dialog with NATO, while working to prevent a deepening of the alliance’s cooperation with the Central Asian states.
- 2.4. Actively develop a program of military interaction within the SCO, as an alternative to NATO’s. One of the principal guidelines for Beijing’s policy in this area should be cooperation in the fight against international terrorism.
- 2.5. Restrain the Central Asian states and Russia from an “excessive” rapprochement with Western countries both in the economic and in the political field.

3. Achieve a geopolitical balance with Moscow in Central Asia.¹⁸

- 3.1. Pursue the role of a dominant factor and focus of regional cooperation, while suppressing external manifestations of competition.
- 3.2. Intensify integration within the SCO, which should naturally lead to PRC’s domination within this regional grouping due to China’s complex resource domination.
- 3.3. Expand cultural cooperation with the Central Asian countries.
- 3.4. Continue the process of the SCO’s institutionalization, expand the existing and create new executive bodies; expand the scope of collective decision making mechanisms.

¹⁸ Some scholars believe the SCO formation shows that Moscow’s position in Central Asia has weakened (see, for example: F. Khamraev, “NATO-SCO: Struggle against Terrorism and/or for Domination in Central Asia,” *Central Asia and the Caucasus*, No. 2 (26), 2004, p. 67).

A recent SCO summit in Astana expressed the intention to enlarge the functions of the SCO head, raising his status to secretary general. The SCO's institutional development with the PRC's potential domination will help gradually increase its influence on other SCO member countries.

Today, the PRC is ahead of the RF on many economic indicators, including the degree of its integration in the world economy. Therefore, China has substantial grounds to claim the role of an economic engine for Central Asia. Yet whereas it has good prospects in the economic sphere, politically, the strengthening of its positions poses certain difficulties for China, especially the need to compete with Moscow.

4. Promote the SCO as an international player.

- 4.1. Get the Central Asian states involved in close interaction with the PRC by promoting the SCO's "global" role.
- 4.2. Invigorate SCO activities on the "Afghan issue," the most promising area in this context, through broad support for the SCO working group on a peace settlement in Afghanistan.
- 4.3. Work out policy coordination mechanisms enabling China to influence the SCO partners at the foreign policy formulation stage.
- 4.4. Preserve SCO observer status for Mongolia, India, Iran and Pakistan, without expanding their participation in the Organization, and using this to counterbalance Western influence within the Central Asian region.

5. Advance economic cooperation within the SCO.

- 5.1. Implement an array of measures to create a zone of free trade in the SCO.
- 5.2. Pursue focused interaction with Russia. Fulfillment of common economic tasks creates a good institutional basis for interaction between China and Russia in developing and carrying out regional cooperation programs in other areas within the scope of the SCO.
- 5.3. Ensure that the economic component of cooperation within the SCO does not lag behind its military-political component, which would have an unfavorable impact on the Organization's image.
- 5.4. Use Kazakhstan as an engine for multilateral regional economic cooperation programs.

6. Boost the level of security cooperation within the SCO.

Considering the difficulty of forecasting risks in this area, the task of ensuring security in Central Asia is becoming an overriding priority for the PRC. In addition to that, further development of security cooperation within the SCO will enable China to consolidate its efforts in this direction and not spend them on creating other, minor regional alliances.¹⁹

- 6.1. Maintain stable political development of the Central Asian countries.

China is interested in preserving stability in the Central Asian states that it borders, primarily Kazakhstan. Stability here is a key to further interaction with the PRC on the basis of partnership and trust.

- 6.2. Yet another important goal for Beijing is to expand cooperative planning in regional military security and preparation of joint military exercises in the SCO.

China's military policy in the region is likely to invigorate. It is in China's interests to expand the scope of activity by its armed forces in various missions abroad, in-

¹⁹ See: V.A. Korsun, "Diplomatia KNR v bor'be za postsovetskoe nasledstvo v Tsentral'noi Azii," in: *Severo-vostochnaia i Tsentral'naia Azia: dinamika mezhdunarodnykh i mezhregiona'nykh vzaimodeistvii*, MGIMO, Moscow, 2004, p. 413.

cluding in Central Asia. SCO cooperation projects can therefore help consolidate Chinese military elements in the Central Asia region.

- 6.3. Lay the groundwork for advancing security cooperation within the SCO to a level of allied relations.

7. Expand China's cultural presence in Central Asia as a necessary precondition for achieving the status of a superpower.

- 7.1. "Work" not only with the elites of the Central Asian states but also with the civil societies of SCO member countries.
- 7.2. Overcome cultural alienation between China and the Central Asian countries by intensifying humanitarian contacts at the SCO.
- 7.3. Expand Chinese educational programs in the region, especially targeting students and young people.
- 7.4. Promote the Chinese development and civilization model in the region.

There are three main groups of factors impeding the attainment of China's regional priorities.

Group 1 includes China's relations with Russia. Chinese-Russian relations of strategic partnership are marked by numerous contradictions, not least with respect to Central Asian policies.²⁰

Moscow is ambivalent on the SCO. On the one hand, Russian officials say that the SCO should not be overestimated and that it is just in the formative stage: SCO institutions have just been created and now concrete plans for their activity need to be worked out, which will take considerable time. Meanwhile, trade and economic cooperation has yet to start; energy and transport cooperation is still in the discussion stages, while real, albeit small results have only been achieved in the sphere of foreign policy cooperation between security and intelligence services. On the other hand, Russia is seeking to actively use the SCO to compensate for its economic and military weakness in the region through intensive diplomatic activity in Central Asia.²¹

Beijing operates on the assumption that Russian diplomats consider Central Asian partners to be very difficult negotiating partners—what with nationalism, the desire to get something from the SCO without giving anything in return, excessive ambitions in the absence of competence, show case diplomacy, and the striving to use the SCO as a means for receiving assistance from Russia and China.²² Under these conditions, the Russia-China tandem is a central element in the SCO.

At the same time, Beijing is concerned by Moscow's attempts to use the SCO for "disciplining" China's behavior in Central Asia, contending that China can achieve greater influence on Central Asian leaders than Russia and thus get ahead of Russia in the race for Central Asian energy resources.

China is closely studying the situation in which Moscow sees China as a potential adversary in the struggle for military-political influence on the Central Asian countries, but on the other hand, is unhappy with the fact that China is not as yet prepared to ensure political stability in Central Asia not only through political but also military means, if the situation so requires.

Beijing also sees Moscow's two-pronged and ambivalent approach toward American military presence in the region. On the one hand, Moscow believes that U.S. military presence in Central Asia at the moment helps to ensure stability in the region. On the other, in discussing long-term plans for SCO development, it is looking for ways of replacing U.S. and NATO military presence with SCO presence.

²⁰ See: B. Lo, "The Fine Balance—The Strange Case of Sino-Russian Relations," *Russie. Nei. Visions*, No. 1, April 2005.

²¹ See: V. Kindalov, O. Limanov, "Russia and China in Central Asia: Geopolitical Changes," *Central Asia and the Caucasus*, No. 3 (21), 2003, pp. 73-74.

²² See: I. Komissina, A. Kurtov, "Problemy razvitiia sotrudnichestva Kitaia i Tsentral'noi Azii," in: *Novaia Evrazia: Rossia i strany blizhnego zarubezhia*, *Analytical Almanac*, Issue 15, RISI, Moscow, 2003, p. 43.

Beijing would also like to see greater clarity in Moscow's position on the existing contradictions between the SCO, on one side, and the CSTO and EurAsEC, which include almost the same countries except China and Uzbekistan, on the other. China believes that there is no coherent concept for overcoming them yet—hence the sluggish dialog between the secretary generals of the SCO (Chinese representative) and the CSTO (Russian representative).²³

Beijing is also concerned about the spontaneous way in which the SCO is refocusing toward other regions. The SCO is not prepared for the admission of new SCO members since there are no clear guidelines for SCO membership (unlike, for example, in the EU). This gives rise to such ideas as, first, forming an institution of SCO observers and second, establishing the format of a SCO-ASEAN dialog.²⁴

China has not as yet formulated a clear position on a plan of overcoming the contradictions between the SCO and the CSTO, which calls for turning the SCO into a channel for dialog between Russia (together with CSTO members) and China, designed to get China closely involved in ensuring stability in Central Asia not only by political but also military (if need be) means.

On the whole, China believes that Russia thus far does not have any concrete ideas, concepts or plans for the further development of the SCO. Moscow's position on interaction with Beijing within the SCO framework is seen as contradictory and not well formulated. China is perceived as both a partner and as a competitor. Depending on the PRC's line of conduct, one or the other type of perception will strengthen or weaken.

The events in Kyrgyzstan showed to Beijing that Russia is not prepared for real leadership in the Central Asian region and that they took the Kremlin by surprise. Beijing was both interested and concerned about the recent activities by Russian spin doctors who, after summing up the lessons of Georgia, Ukraine and Kyrgyzstan, are forming a new concept with elements of U.S. experience, relying on NGOs in the CIS countries and creating a pro-Russian opposition there. The latter could play the role of a "fallback option" should ruling regimes fail to retain power.

Beijing also saw a concurrence of Russian and U.S. interests in Kyrgyzstan: On the strategic level, Russia is ready to embrace the U.S. concept of democratization for Kyrgyzstan provided that Russia's military (base), political (Kyrgyzstan's CSTO and SCO membership) and economic (Kyrgyzstan's gold and uranium reserves) interests are ensured. The Kremlin sees the main threat to its interests coming from the ongoing political chaos in Kyrgyzstan, and is ready to cooperate with the EU and the U.S. on matters of ensuring political stability in the Republic of Kyrgyzstan.

Group 2 is related to the mood that exists in the Central Asian countries—both within the general public and political elites. Considering the precedents of abrupt foreign policy turns in the recent history of certain Central Asian republics, Beijing believes that should the political situation change, no long-term cooperation agreements will guarantee the continuation of such cooperation by its partners in the region. These sentiments are crucial for the SCO's stable development and therefore the successful achievement of China's goals.

The mood that exists in Central Asia is closely connected with another group of factors in the geopolitical situation in so far as a change in this mood can bring about a geopolitical change in these republics. **Group 3** includes risk factors in the achievement of China's goals in Central Asia, specifically the probability of interference by foreign powers, primarily the United States, in regional affairs, to the detriment of Chinese interests. And although China even now occupies a dominant position in the region, having the possibility to exert effective influence on the development of the Central Asian states, the involvement of external forces poses a real danger to it.

Apart from its main foreign policy priority—to limit the U.S.'s growing presence in Central Asia and South Asia—another internal political task was very important for Beijing: to prevent a possible

²³ See: Xing Guangcheng, "The Shanghai Cooperation Organization in the Fight against Terrorism, Extremism, and Separatism," *Central Asia and the Caucasus*, No. 4 (16), 2002.

²⁴ See: Chen Yurong, "ShOS v novoi obstanovke," in: *Kitai i Tsentral'naia Azia: sotrudnichestvo s seliui obespecheniia regional'noi bezopasnosti i protsvetaniia*, pp. 30-33.

strengthening of the Islamist and Turkic influence on residents in the Xinjiang-Uighur Autonomous Region bordering Central Asia. The PRC can deal with nationalist and separatist movements within the country with its own resources.²⁵ At the same time, as well as Russia and some of China's Central Asian neighbors, the PRC is seeking to legalize repressive military operations on its territory by integrating them into all sorts of international agreements (in this case the SCO) and looking for possible allies in the neighboring region.

A case in point was the SCO antiterrorism exercise in the Xinjiang-Uighur Autonomous Region in the fall of 2003.²⁶ Previously, China firmly adhered to the principle of not permitting any foreign military presence on its soil. Now, within the SCO framework, China, as well as Russia, has the possibility of using the situation in Central Asia and Afghanistan now prevailing to demonstrate force and consolidate multi-centrism in the world today. Beijing is working consistently to strengthen its positions in Asia by playing on the weaknesses of other countries in the region and on contradictions between them. But while building up its international potential, the PRC would not like to provoke international or regional centers of power or neighboring states to form an anti-Chinese alliance. Beijing believes that China's neighboring countries should be either neutral toward it or be under its influence. To this end, China is betting on "the pro-Beijing orientation of neighboring countries" and "creeping expansion." In this respect, the inclusion of potential adversaries in the same bloc with China is a promising strategy for Beijing, one that leads to the "opening up" of the region.

The SCO is still a "transitional structure." The term of its fundamental agreements expires on 31 December, 2020 (with a possible prolongation for another five years)—that is to say, covering a period when China is expected to evolve as a world center of force. At the end of this term, China's policy may become tougher, which cannot but reflect on its relations with the neighboring states. In 2001, five years after the Shanghai Five was created, a publication in *Strategy and Governance*, an influential Chinese journal, commented on that rather bluntly: "All countries bordering China should be under its influence. This responds to the PRC's security interests." According to the publication, the SCO member countries should meet the following criteria: be neutral with respect to Beijing and under no circumstances be U.S. allies.²⁷

Having initiated the SCO as a structure for checking the expansion of U.S. military presence in Central Asia and South Asia, Beijing is constantly stressing that it would not like to see it transform into a military-political bloc. Thus, speaking in 2004 in Tashkent, SCO Executive Secretary Zhang Deguang said that the Organization would never become a military-political, anti-Western alliance. But the Chinese leadership abandoned what was a fundamental principle of the PRC's foreign policy during the "pre-SCO period," one that had been formulated way back under Mao Zedong and proclaimed by Dan Xiaoping: "not to spearhead an association of developing countries aimed against the U.S."

During the evolution of its military-political course within the framework of relations with SCO member countries, Beijing drastically revised its apparently immutable foreign policy positions, primarily the principle of nonalignment with respect to international organizations and blocs. Thus, China would not participate even in the activities of the Nonaligned Movement. But in the case of the SCO, Beijing not only initiated the creation of a military-political alliance but is clearly laying claim to leadership in it. Not surprisingly, Chinese President Jiang Zemin described its creation at a Shanghai Five summit as a major international event at the turn of the millennium.

In the interest of enhancing control over the southern part of the CIS, Beijing is striving to form a collective security mechanism distinct both from European structures, such as the OSCE, and from Asia-

²⁵ See: K. Khafizova, "Separatism in China's Xinjiang-Uighur Autonomous Region: Dynamics and Potential Impact on Central Asia," *Central Asia and the Caucasus*, No. 1 (19), 2003, pp. 15-16.

²⁶ See: V. Mikheev, "Kitai i ShOS: problemy vzaimodeistvia 'velikikh derzhav' i perspektivy organizatsii," in: *ShOS: stanovlenie i perspektivy razvitiia*, Almaty, 2005.

²⁷ See: Pan Guang, Hu Jian, op. cit.

Pacific structures, primarily the Japanese-U.S. Security Treaty (1978). According to the Chinese, the OSCE is ineffective and its experience is inapplicable to Asia, while the Washington-Tokyo alliance guarantees the U.S. absolute domination in the Asia-Pacific Region. By contrast, at the SCO, all problems are dealt with not by just one country, but formally by all states regardless of their size or potential, which quite suits Beijing. At the same time, the implication is that under certain conditions, SCO member countries with a small military capability can count on Russian and Chinese assistance.

In theory, there can be several scenarios for the continuation of the Shanghai process. The first is a classic Soviet scenario, of the CIS, GUUAM, EurAsEC or CSTO kind. Another is the SCO's transformation into an Asian version of the OSCE. It may be recalled that the CSCE/OSCE was also based on a specific military treaty—the Treaty on Conventional Armed Forces in Europe.

In this event the SCO member states will be confronted with the need to resolve a number of outstanding as well as potential problems, including the attitude toward the U.S. decision to deploy a regional missile defense system. Beijing is concerned primarily that the missile defense system must not extend to the U.S.'s relations with Taiwan.

At the same time, China's interaction with Russia is a key factor in its decisive opposition to the U.S. plans. Beijing intends to continue making statements about the inadmissibility of "unipolar domination" and calls to advance toward "multipolarity."²⁸

As meetings of SCO leaders have shown, one of the Organization's main problems is the lack of consensus between the member states on their understanding of differences and similarities between separatism and terrorism. An antiterrorism convention signed by SCO member countries contains obligations on forms of counteraction, the sharing of information, the conduct of special operational and search activities, and other classical methods of fighting terrorism. But observers note there is no consensus, for example, on whether oral propaganda of national independence should be treated as separatism, and punished as severely as armed resistance. China believes that it should. Russia's position is somewhat different.

At present there are two parallel antiterrorism centers in Asia—one within the framework of the CIS and the other within the SCO. Their interaction so far only exists in theory. Furthermore, the level of trust between Moscow and Beijing (despite the truly enormous scale of military-technical cooperation) has not as yet been restored to a degree that would ensure a complete sharing of relevant information. Meanwhile, such information is crucial for any data bank that is a key to the creation of any antiterrorism center.

In the military-political and military-technical spheres, cooperation between the SCO member states develops primarily on a bilateral basis. In addition to that, Russia cooperates with Central Asian countries through the CSTO.

Thus, Astana has repeatedly stressed that Moscow is its principal ally in economic, energy, and military-political matters. At the same time, Kazakhstan invigorated its activity within the CSTO. In the second half of 2004, the lower house of Kazakhstan's parliament ratified a protocol expanding the application of the Agreement on the Fundamental Principles of Military-Technical Cooperation.

Greater stability in Central Asia is the key element of a new Chinese-Russian alliance in the security sphere. Washington notes that China conducted parallel negotiations with Russia and Mongolia. These negotiations produced two separate treaties, both of which were announced almost simultaneously. The first treaty, signed between China and Russia in Moscow, obliges both countries to refrain from supporting opposition ethnic minority movements.²⁹

²⁸ See: Bishkek Declaration of heads of state of the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan, in: *Diplomaticeskaja sluzhba v Respublike Kazakhstan*, Almaty, 2004.

²⁹ See: Ruan Qishan, "Imei li ShOS strategicheskuiu vazhnost' dlia Kitaia?," available at [<http://www.junshi.com/san/200106/1238320010618.htm>].

Another element of bilateral cooperation has to do with China's maritime ambitions and Russia's ambitions in the Caucasus. This is due to the fact that the Chinese-Russian treaty is a non-aggression pact, in accordance with which the two sides have agreed to maintain peace on their common border so as to be able to concentrate their attention on other parts of the world. The treaty makes it incumbent on both sides to abstain, in their relations, from the use of force or economic pressure, and gradually reduce the level of military confrontation on the border.

The treaty's 20-year term probably has an indirect bearing on relations between China and Taiwan since the Chinese-Russian treaty unequivocally supports the "one China" policy. By helping stabilize the situation on China's internal border, these two treaties will enable Beijing to pursue a more aggressive eastern sea strategy, and focus its military capabilities on Taiwan.

For its part, stability on the border with China will enable Russia to concentrate on restoring its control over the oil-rich regions around the Caspian Sea and pipelines leading to Western markets.

However, China also pursues active contacts with the United States, including trade and economic relations worth many billions of dollars. Chinese-American relations today are so diversified and developed and economic ties are so impressive that it is quite possible that within the Moscow-Washington-Beijing triangle, the PRC has a pretty good chance of "playing the Russian card."

International events that took place after 9/11 to a very large extent caused a number of countries, on which China had pinned certain hopes, to change their behavior on the international arena. In this respect Beijing is evidently disappointed with the low effectiveness of the SCO as an organization designed to advance regional security in Central Asia and as a kind of counterbalance (the way Beijing sees it) to American influence in the region.

The events in Afghanistan and the subsequent bomb attacks in the United States showed that participants in this organization, with the exception of the PRC itself, had effectively supported U.S. actions: Consider the initiative by Tajikistan and Uzbekistan, which joined the "Group of Five," to provide temporary bases for the deployment of U.S. military personnel on their soil.

Summing up what are oftentimes rather conflicting and contradictory facts and events that have occurred within the framework of the new regional structure (the SCO), the following conclusions can be made.

First, the SCO is indeed a new international organization. In creating it, China not only abandoned a fundamental principle of its foreign policy in the previous 50 years (i.e., nonparticipation in any regional or other association aimed against third countries), but made active efforts to institutionalize the SCO.

Second, the SCO points to a new element of China's policy—the striving for leadership within the framework of this international organization, which is somewhat at odds with China's foreign policy tradition of the past few decades.

* * *

The strategies of SCO member states within this structure, which were only recently in the formulation stages, have been presented in general outline, identifying the strategic interests of these countries and their resolve to formalize the Organization's status as a regional center of power. At the same time, Central Asia is now turning into a new promising vector for China in which the Chinese leadership may use various nontraditional policy instruments. This forecast is, essentially, in synch with the logic of Beijing's foreign policy objectives—economic development, economic security, military-political security, geostrategic confrontation with Washington, and so on and so forth.

As the SCO strengthens its role in regional affairs, its weight within Central Asia's security system has increased, but all member states are resolved to further enhance the role of this structure in political and economic processes that are unfolding in Central Asia.

Analysis of all these factors leads to the conclusion that the SCO remains one of the most ambitious and far-reaching projects in modern international politics. Today, the SCO's imperative is the aspiration, driven by Moscow and Beijing, to protect Central Asia against American and NATO domination. Central Asia and the SCO are the top priority for the two powers. This suggests that economic, political and security cooperation between them will continue to advance in the next few years.

To understand China's role in the SCO, it is necessary to recognize a direct connection between Beijing's plans with respect to the SCO and its strategic orientation toward global domination. It is also important to see a dependence between its plans to become a global power and its policy in Central Asia: Without establishing its unchallenged domination in the region, China will be unable to carry out its ambitions plans.

Evidently, all modern processes connected with the SCO have essentially a geopolitical character, but it should be borne in mind that they are laying the groundwork not only for changing the geopolitical status quo but also for the national development of the Central Asian countries. It seems that the SCO's potential with respect to social-economic and cultural-humanitarian development of the Central Asian states will be activated in the foreseeable future, producing a certain impact on the development of these republics and their relations with China.

In this context, Kazakhstan is in a special situation, which is related to the key role in the "Shanghai process" that China has assigned to it and is resolved to promote as far as possible. Should, in an unlikely scenario, the SCO project fail, China will bet completely on Kazakhstan. At any rate, advancing bilateral relations to the level of strategic partnership was predicated on Kazakh guarantees that Beijing's interests will be observed under any political circumstances. Nevertheless, this only increases the risks for the Republic of Kazakhstan.

CENTRAL ASIA AND CHINA: NEW HORIZONS OF INTERNATIONAL REGIONALIZATION

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Central Asia is currently a hot item on the global agenda. It is not every decade that the world finds itself embracing a new region with the alluring appeal of mass hydrocarbon production and export, large investments, and promising cooperation in the military sphere. What is more,

other phenomena adding to Central Asia's renown are intensifying the glow of the geopolitical theme. They include the local governments' opposition to the extremist movements, the West's accusations of authoritarianism and violations of democratic rights and freedoms, the Islamic renaissance, the Color Revolutions, and so on. In addition, it is obvious that the West is keeping a sharp eye on the region's republics, which is shown by its immediate reaction to the events going on in Central Asia, whereby this attention continues to increase all the time.¹ Emissaries not only from Western, but also from many other large countries are actively working in the region. There must obviously be extremely good reasons why even the most distant centers of power are showing such an intense interest in Central Asia. And the answers lie deeper than they appear to at first glance.

The domestic sociopolitical evolution of the Central Asian states is of little interest to most foreign observers. As paradoxical as it may seem, the problem of drug trafficking, which is pertinent to the Central Asian Region (CAR) and urgent for the whole world, is being studied even less. In this case, the priority topics for political analysis—apart from big business issues (read: the production of natural resources)—are the Big Game being waged among the leading present-day nations over the region, Russia's strategy in Central Asia, and the spread of China's influence there, which are all closely associated with CAR. In short, we are talking about geopolitical rivalry in the region. It is clear to many that oil and gas cannot be the only reason for this excitement. For as long as hydrocarbons are being produced and are in demand, they will always reach their consumer, whereby these resources will be transported via profitable, and not politically advantageous, routes—this is a law of economics, the violation of which is fraught with serious consequences, primarily for the exporter state. It stands to reason that it is not Kazakhstan that needs new pipelines, but other states that need guaranteed oil deliveries.

The Central Asian Region was and largely remains dependent on Russia—essentially 100% of the strategic hydrocarbon resources produced here are transported through the Russian Federation. Only Kazakhstan, which is also linked to Moscow by a pipeline system, retains relative independence over its energy policy. It is likely that the development of the southern and trans-Caspian vectors of energy resource deliveries from Central Asia may indeed prove more profitable compared with the existing ones. However, this will not happen in the foreseeable future while chaos reigns in Afghanistan, Pakistan is being shaken from the inside, and the Caucasus is under permanent threat due to the absence of a normal dialog between Iran and the West. What is more, the current level of scientific developments will not permit putting the Caspian ecosystem at risk. Even if they are implemented soon, the numerous new transportation projects—those already carried out and only just being developed (West Kazakhstan-China, Baku-Tbilisi-Ceyhan, Turkmenistan-China, Uzbekistan-China, Nabucco)—will nevertheless be incapable of radically changing the situation in the mid term with respect to energy deliveries from the region. In all likelihood, the insistent attempts to diversify energy export from Central Asia are simply aimed at undermining Russia's domination in the region.² Possible annual deliveries of energy resources in amounts of up to several tens of thousands of tons or millions of cubic

¹ There is the opinion that in recent years "the West has been losing interest in Central Asia" with respect to the problems arising in other parts of the world and, in particular, in Iraq. Well-known American specialist on the region M.B. Olcott reinforces such a claim in his recent book by the argument that democratic reforms in the CAR countries are not being carried out as quickly as the West expected (see: M.B. Olcott, *Central Asia's Second Chance*, Vol. 18, Carnegie Endowment for International Peace, Washington, 2005, p. 3). Moreover, it can be considered that this thesis has at least lost its urgency in the time following publication of the mentioned book. This is proven by the activation of the Central Asian vector in American policy presented in the following work: M. Laumulin, "Pod krylom khromoi utki. SShA v TsentrAzii," *Kontinent*, No. 10 (171), 24 May-6 June, 2006 or at [<http://centrasia.org/newsA.php4?st=1148877300>].

² Publications very clearly show the policy of the U.S. and the West in this sphere with respect to CAR (see, for example, documents at [www.Eurasia.org]: A. Cohen, "Security, Energy and Democracy: U.S. Interests in Central Asia," *Eurasia Insight*, 12 June, 2006; R. Hanks, G. Gleason, "Regional Electrical Integration: Panacea for Central Asia's Economic Woes?" *Eurasianet.org*, 12 July, 2006).

meters bypassing the Russian Federation may be detrimental not so much to Russia's economic, as to its strategic interests. On the whole, the questions relating to the production and transportation of energy resources are only partially raising the veil to reveal what is hidden behind the geopolitical game in Central Asia, what its rules are, and what prize the winner will receive. In our opinion, raising of the problem of *international regionalization* could provide a more in-depth explanation of the current situation in Central Asia.

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International regionalization in this case implies the development of new systemic relations between the states of a specific region and a nonregional player (players), which advance integrative trends and lead to the formation of a new type of region—an interstate formation united by common economic-management and military-political interests around a single center of power—a powerful state.

The matter essentially concerns the formation of a new region, whereby the traditional ties between the countries are replaced by their relations with the new leader. This process differs from integration mainly in the fact that it is not only and not so much the economy that serves as a driving force of unification, rather strategic interests underpin and guide the regionalization process. This is the first thing. Second, it seems that regionalization is not developing *between* countries, but *around* a certain country, the one that acts as the geopolitical center. What is more, in spite of the existing stereotype, this unification does not necessarily have to occur among culturally close nations; geopolitical interests often drown out any other differences. The main prerequisite for successful regionalization is that the state leader should be sufficiently strong strategically in order to ensure sustainable development of its partners and not permit threats to their security.

In our view, the CAR countries (some earlier, others later) have been moving for some time now in precisely that direction—toward rapprochement with a power center, that is, regionalization of Central Asia has begun and the transition period in the region's geopolitics has been completed, when, despite the change in situation and breakdown in forces, relations between the states continued to be built on the basis of old relations.³ The thing is that regionalization of a particular expanse requires the participation of at least one player whose comprehensive strategic potential will serve as a powerful center of gravitation and driving force for the economies of the satellite countries. This in turn promises significant advantages and benefits for the state doing the propelling. Today, a certain geopolitical game is going on in CAR to claim the role of this center of power.

Economic integration within CAR and its subsequently developed pragmatic and diversified cooperation with nonregional nations and neighboring countries would of course be preferable before the Central Asian states established closer relations with the global market. Keeping in mind the comprehensive socioeconomic ties among the recent Soviet republics, their integration is extremely realistic, particularly providing Russia participates in this process, and could also be extremely beneficial to them. Whereas the future of the CIS initially gave rise to doubts nurtured by the or-

³ This approach is shared by several experts. "Some geo-economic circles have recently been voicing the thought that Central Asia is becoming part of the new economic and geopolitical order forming in Eurasia. This process is characterized by the enlargement of markets in the direction of the Southeast Asian states, China, India, Turkey, and Russia. The process is developing against the background of a slowdown (even stagnation) of economic progress in Europe, toward which many CIS countries headed by Russia previously oriented themselves. Consolidation of the "Asian" paradigm and strengthening of Eurasian economic independence (in the event of implementing integration projects in the RF and CA) could have far-reaching strategic consequences" (M. Laumulin, "ShOS—'grandioznyy geopoliticheskiy blef'? Vzgliad iz Kazakhstana," *Russie.Nei.Visions*, No. 12, July 2006, available at [www.ifri.org]).

ganization's amorphous tasks, its complex structure, and ambiguous origin, the EurAsEC, for example, in the composition it currently exists, would have had extremely impressive prospects, had it begun its active participation at least in the second half of the 1990s. But alas we must admit that the opportunity for normal economic integration in Central Asia has been missed. At present, the positions of the countries in the integration talks are not coming closer, while the activity of foreign players has significantly increased. The region's states were unable to make use of their advantages, and the active position of the Kazakhstani president with his integration projects did not receive practical support.

So, while the integration processes in Central Asia became bogged down, new trends were developed—various nonregional centers of power put forward their strategies regarding the CAR republics. As a result, the attention of all the Central Asian states without exception has been focused in recent years not on cooperation with each other, but on analyzing various projects offered by the West, China, Russia, India, Japan, etc. Furthermore, we should keep in mind that although the Central Asian countries are disunited (whereby they were perhaps never as far from each other politically as they are now), foreign players take an interest in them, whereby not individually, but as an entire region.⁴ This is manifested in particular in the fact that observers evaluate any events in Central Asia today, be it a political crisis or a presidential election in a particular republic, not in terms of their influence on the future of the latter, but primarily from the viewpoint of their prospective influence on the region as a whole. That is, Central Asia is perceived from the outside as an integrated entity, on the functioning of certain systems of which the amplitude of development of this entire space depends. This is important to understand when assessing the policy of foreign nations regarding the Central Asian states.

What is the reason for this attitude to a region where not only has not one integration project been put into practice, but the borders between certain countries are even mined? We think that in this case, the policy of the main nonregional players, Russia and China, is having an influence on Central Asia. Since their policy in the region is oriented toward preserving its integrity and geopolitical single-vector nature, it cannot help but affect Central Asian policy as a whole. For the Russian Federation and the PRC, the question consists not simply of preventing the Central Asian republics from moving too close to the West; if Moscow and Beijing come out on the geopolitical losing end, the region may split and its individual countries move into the game field of third states. This means that Russia and China would be better off conducting a resource-spending policy in Central Asia, which would nevertheless be of greater benefit to themselves than to their rivals.

The West's view and conduct regarding Central Asia differ from those of Russia and China. The following excerpt from a statement by Richard A. Boucher, Assistant Secretary of State for South and Central Asian Affairs, is quite eloquent: "The United States supports the development of fully sovereign, democratic and prosperous nations in Central Asia, cooperating with America and with one another to advance regional security and stability... The people of these countries, strategically and individually, deserve choices and opportunities so that they may exercise their independence—not by relying on one market or power, but by having a variety of options. Our policy is to help them have options."⁵ So a struggle is going on in the current geopolitical game over the region. However, whereas each of

⁴ Moreover, American specialists are trying to tie Central Asia to Afghanistan, urging for "the region's map to be changed." Apparently, according to their estimates, this could promote its re-orientation from the Russian-Chinese vector to the Western. On the conception of Greater Central Asia, see: S. Frederick Starr, "A Partnership for Central Asia," *Foreign Affairs*, July/August 2005, available at [<http://www.foreignaffairs.org/20050701faessay84412/s-frederick-starr/a-partnership-for-central-asia.html>].

⁵ From the Statement of Richard A. Boucher, Assistant Secretary of State for South and Central Asian Affairs, on 26 April, 2006 before the House International Relations Committee Subcommittee on the Middle East and Central Asia [www.usinfo.state.gov].

the strong nonregional players is satisfied, we presume, after gaining at least one of the Central Asian republics as its ally, the situation is much more complicated for Moscow and Beijing, and the stakes are higher.

Meanwhile, even the short 15-year history of new Central Asia shows that what is going there does not blend into the traditional formulas of regional development, nor into several of the scenarios Central Asia has to offer. On the one hand, the presumptions expressed about the region's split into countries, some of which would gravitate toward the Muslim south, and others toward the northern neighbor, etc. did not come to pass, and on the other, the hopes for rapid and efficient intraregional integration were not justified. What is happening to Central Asia and what future awaits it in light of the gathering momentum of the globalization processes and rivalry among the nations? In our opinion, international regionalization most clearly expresses the genuine geopolitical processes in Central Asia.

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It should be specified that in this article the term "region" will be used only in the international respect (we are avoiding the narrow meaning—"geographical area of an individual state") and in two "conditions"—*real* (geopolitical) and *potential* (geostrategic). In so doing, the last two concepts are not generally accepted with respect to the subject-matter of our study, but we believe they are entirely justified. First, the concept "region" is traditionally used in contemporary political science to define groups of countries united by common geographical-climatic, ethnic, and cultural-historical characteristics. There is no common opinion about Central Asia, but we are upholding the one, according to which the region, because of its common set of characteristics, constitutes (in this case) the states of post-Soviet Asia, in particular: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Any extensive use of the definition "Central Asian Region" (for example, Greater Central Asia with Afghanistan, or Central Asia-Turkestan with Xinjiang, etc.) provokes excessive politicization of the concept. Extensive use is entirely justified in the purely geographical sense, for example, as in the Great Soviet Encyclopedia.⁶

According to the *real* situation, the state of regional affairs in Central Asia is the existence of five extremely close republics that are kindred in every natural and sociocultural way. At the same time, although geographically this space is undoubtedly a region, in the country's practice, its components are loosely interrelated and try to live side-by-side under conditions of the utmost autonomy.

As for the second component of the term, in the context of our study, the concept "region" could serve as a definition of the result of international regionalization. The regionalization process, which is still unclear, but potentially consists of the main content and conception of development of international relations in Central Asia, should in the end lead to the creation of an essentially new formation for this geopolitical space—a regional system based not only on traditional relations, but also on the structure, integrated within itself at the lower level into a single space by

⁶ Central Asia is a natural country in Asia, consisting of deserted and populated plains, foothills, and mountains. Bound in the East by the southern part of Greater Hingang and the Taihanshan mountain range, in the South by the extensive tectonic depression of the upper Ind and Brahmaputra (Cangpo). In the West and North, the border of Central Asia corresponds to the mountain ranges of Eastern Kazakhstan, Altai, Western and Eastern Sayan, approximately coinciding with the state border between the U.S.S.R., on the one hand, and China and Mongolia, on the other. According to different estimates, the area of Central Asia is between 5 to 6 million sq. km. On its territory are large parts of China and Mongolia. The population of Central Asia consists of Mongolian nationalities (halkha, and so on), Chinese, Uighurs, Tibetans, and others (see: "Central Asia," in: *Great Soviet Encyclopedia*, 1975).

strong economic-management and sociopolitical ties between the components of its countries, and at the upper level into the global market as a separate economic and political unit, and not as a group of geopolitically close countries. It should be a system that ensures the security of all its components.

Why did integration, which was quite clearly declared when the republics of the region acquired their sovereignty for the purpose of their cooperation, not work in Central Asia? Why was it necessary to extend the traditional concept of “region” with respect to Central Asia, and what role can China play in CAR? In our opinion, the current situation is entirely caused by the changing world order. The Central Asian countries found themselves in extremely difficult conditions, faced with the challenges of globalization and the new rules of coexistence among states on the international arena. And although in terms of all the objective criteria, the Central Asian republics make up a self-sufficient region, they have essentially been deprived of a historical opportunity for full-fledged regional integration: having failed to complete the necessary path of national self-determination, they have found themselves drawn into the globalization processes. Despite the fact that intraregional integration was designated in the programs of every rational Central Asian politician as one of the priority tasks, during the 15 years of independence, it has not shown any clear trend toward development. Taking into account the changing international situation, it must unfortunately be stated that the region’s future lies with the active nonregional actors. Whereas globalization with its “enlarging” trends and transnational forms is today’s reality, regionalization in Central Asia will be carried out according to the Chinese, Russian, Western, or South-Asian scenario.

So, for foreign observers, any question within the framework of the broad geopolitical theme, from the direction in which energy resources are transported to the specifics of the Shanghai Cooperation Organization, fit today into a simple scenario: the region is gradually liberating itself from the complexes of “post-Soviet” Asia and is now floating free, maneuvering between coming too close to or drawing too far away from Moscow. But in today’s world (particularly under local geopolitical conditions), the CAR countries have little chance of integrating into the world economic system without becoming the preliminary satellite of one of the centers of power in the picture.⁷ The latter, depending on their own short-term and long-term interests, are building their relations with the republics and exerting efforts to move them into their orbit.

It stands to reason that the Central Asian countries are currently perceived almost exclusively as objects of international politics and, in particular, of the regionalization processes. In so doing, the republics are sooner in a position to react to the foreign challenges created, in addition to Russia (their traditional center of gravitation), by other active participants in the unfolding geopolitical rivalry. This situation is natural. A region, the countries of which are economically weak, have never participated to any great extent in international affairs and have rather “fuzzy” images in the eyes of foreign observers, cannot have any influential power. But in reality, despite their ambiguous reputation and limited resources, much depends at the current stage on the Central Asian governments. Although their states are acting more as objects of contemporary politics, the role of the leadership in the five republics is nevertheless not entirely passive: the future regional configuration of Central Asia depends (primarily and mainly) on the choice of the region’s republics themselves and on their preferences in foreign policy. Despite all the objective limits on their geopolitical maneuvering, integration, the pros-

⁷ Incidentally, not only external, but also strictly subjective factors are preventing this, which are embedded in the policy of the region’s republics with respect to each other. The Central Asian countries are distancing themselves as much as possible from their “neighbors” in their foreign political activity, trying to prove their own self-sufficiency, while closer cooperation with regional “neighbors” and coordinating their foreign policy with them would noticeably consolidate their positions and would have a positive effect on interrelations with various power centers. Paradoxically, international organizations in which the Central Asian countries participate are manifesting viability, providing that either Russia or China is one of their members.

pects of which are being considered here, cannot be imposed from the outside. It can be lobbied, but, in the end, only mutual gravitation of the sides and the posing of mutually satisfying strategic assignments are capable of launching regionalization mechanisms. Without this, pumping in money, political pressure, and other tools used by the most influential actors of international politics will not achieve their main purpose. The latter will not be able to direct regional centripetal trends toward themselves to the detriment of the interests of other contenders.

The thesis that the foreign policy of the Central Asian countries is vitally important in the evolving regionalization is confirmed by the situation that occurred at the end of 2006 in Turkmenistan: the death of President Saparmurat Niyazov posed a challenge to all the players involved in Central Asian geopolitics, which put their attacking forces into “feeling out” his successors. Reducing all the questions to Turkmen gas resources seems to be oversimplification and unnecessary politicization of the energy issues. The situation is much more complex and is not characterized only by route via which Turkmen gas will be exported. Most likely, this republic cannot go on ignoring reality and isolating itself from the international affairs in the Caspian-Central Asian Region, which would be tantamount to political suicide of its new leadership. At present, the choice of foreign policy vector depends on the new state leader and, consequently, several intrigues of Central Asia’s upcoming regionalization will be decided in Ashghabad—which participants in the geopolitical contest will receive a new trump card; will additional stimuli appear for regional or international integration?

So, while presenting itself only as a region in the geographical sense so far, Central Asia is beginning its own regionalization process—forming a region which in all likelihood will be built with the active participation of one (or several) nonregional nations. In other words, regionalization (as an alternative to regional integration), which is characteristic of the countries that have for one reason or another missed the chance of carrying out an integration program within their region, serves as the key to all the main processes taking place today in Central Asia. While some participants in this regionalization process see it as a natural trend and method of survival, others perceive it as a struggle to divide the world up in a new way at the post-industrial stage.

On the whole, most analysts engaged in the region’s problems are concerned with two main issues: which sphere of influence might the Central Asian Region finally enter, and what can be used to counteract the efforts of the Chinese side to prevent it from winning there? The geopolitics of Central Asia are attracting top priority attention, since they are the key to vitally important geo-economic processes for contemporary capitalism and are determining the main players, the geographical location of the pipelines, and the direction of trade and economic activity as a whole. Much depends on whose side the participants will take in this “game of interests.” If we take a broader look at the state of affairs, the future world order will depend on how Central Asian regionalization develops. For if China, which many regard as the main contender for “victory,” can indeed draw CAR into the zone of its vital interests, this will have a significant effect on Russia’s and the U.S.’s place in the world.

* * *

Moving from the theory of Central Asian geopolitics to its practice, we should primarily note the large number of the most diverse geopolitical players claiming certain forms of cooperation with CAR. Perhaps the closest historical analog of this geopolitical situation is the history of the former federal entities of the Social Federal Republic of Yugoslavia, which achieved their independence and were later gradually drawn into European integration (earlier they were included in NATO’s security programs). Nevertheless, we should realize that no serious geopolitical differences of opinion were noted in their case. Geographically, these territories were part of Europe, that is, of the Western world,

and consequently, they did not have any particular regionalization alternatives. Even Serbia, with its “historical grudge” against the West and tactical gravitation toward another geopolitical center, Moscow, will most likely draw closer to the West, since strategically regionalization with it is more advantageous than with Russia. Another example of the struggle for geopolitical orientation and distribution of zones among various centers of power is present-day Ukraine, which lies between the West and the Russian Federation. But in this case, the matter concerns one state, and not a region, what is more, Russia has already clearly lost this “battle.”

In all likelihood, the current situation with respect to Central Asia is unique. According to development logic, the “Asian paradigm” (Murat Laumulin cited above wrote about it) presented the best chance for Central Asia at the end of the 20th-beginning of the 21st centuries. This only made the West more determined to fight for the region’s strategic minds. Appealing to the notorious hydrocarbon supplies of Central Asia, with a factual view of the state of affairs, is just as inevitable here: neither the United States, nor Europe, nor, in particular, China were able to remain indifferent to CAR due to the energy factor alone. In this context, analogies with the Middle East Region come to mind—its “distribution” among the great powers began even before black gold was discovered there; moreover, the geostrategic location of this zone was of immense importance to the latter. But the transformation of oil into planetary energy source No. 1 significantly aggravated the situation for the countries of the Middle East. Those of them that were beyond international regionalization, that is, were not associated in any way with a center of power or had departed from it, are geopolitical outsiders today, whose development is made extremely difficult by the complicated relations with the number of states (for example, Iraq with its 9.6% world proven supplies of oil, Iran with 11.5% of oil and 14.9% of gas reserves, as well as Lebanon, Syria, and several more).

At present, the problem of CAR lies in the fact that it is acting as a target of strategic gravitation for an extremely large number of nations. This requires that its republics conduct an entirely energy-consuming foreign policy, which is making it difficult to concentrate on certain priority directions. On the one hand, there is a strong pull toward Russia, from the paternal influence of which any of the Central Asian countries cannot escape at short notice, even if they really want to, and on the other, the mighty West does not intend to reject its plans regarding the region. Central Asia has the most ambitious and promising young nation, the PRC, as its neighbor.

The overall situation that is currently developing today shows that China has the greatest advantages in carrying out regionalization of Central Asia under its auspices.

* * *

Finding itself faced with the historical opportunity of becoming the leading state on the planet, the PRC could not ignore the possibility of becoming a regional leader in the Central Asian expanse, geopolitically free from the West’s influence. Taking into account the geographic factor, the main advantages were on the Chinese side. For the past 10-15 years, Beijing’s financial potential has been growing incredibly—it recently occupied second place in the world in terms of gold and currency reserves. But its main weapon is perhaps the ability to strategically plan its policy.

Guided by its Eastern mentality and diplomatic wisdom, China, despite all its achievements in Central Asia, is not coming forward, like the U.S., with “loud” initiatives. For example, the project proposed a year ago to create a single energy system in Central and South Asia (from Kazakhstan to India), which promotes, according to its authors from the U.S. State Department, integration of the economies of both Asian regions,⁸ is seen by the East as a too “straightforward,” ill-considered, and

⁸ From the statement of Richard Boucher, 26 April, 2006...

unprepared step. Having a significant interest in hydrocarbon resources of the region, Beijing was primarily concerned about establishing a trustworthy dialog with the Central Asian elites, and also created an efficient institution in Central Asia, by means of which similar initiatives could subsequently be advanced without damaging the PRC's image. This structure began emerging at the end of the 1990s, and since 2001 became known as the Shanghai Cooperation Organization. Today it is successfully carrying out the tasks it faces, including efforts to create a SCO Energy Club.

The activity of this formation is playing into China's hands above all, since it, according to the current authoritative opinion, is the "Chinese project."⁹ This statement may be indisputable, but we can see the following phenomenon: any pipeline corridors from Central Asia are associated with technical difficulties and large financial expenses due to the geographical features of the region. But the Atasu-Alashankou oil pipeline is already functioning, and the gas pipeline in the direction of the PRC is going through the last stages of confirmation, while despite the seemingly large financial and other resources, most of the long discussed projects still remain on paper.

In light of the events in CAR, the impression has been created in recent years that the region is drawing closer to the point beyond which balancing between the interests of various nations may later prove impossible for its countries. "The geopolitics in Central Asia have lately begun to engender rivalries," noted an authoritative Indian expert.¹⁰ Largely due to the SCO's activity, the centers of gravity were destroyed in a relatively short time, as a result of which the entire "building" of Central Asian geopolitics began to teeter alarmingly. Just recently, after the beginning of the antiterrorist operation headed by the U.S. in Afghanistan, it was noted that "China is the big loser in the war on terrorism in Central Asia. Virtually every plank of its strategic policy for enhancing its influence and lessening American influence has failed."¹¹ But today, authoritative Western Sinologists, such as Lyle Goldstein, are essentially recognizing the success of China's policy in Central Asia and are urging the "losing" American government to support the Chinese initiative concerning the region.¹² The Chinese side is discussing bold integrative projects with the CAR states and is confidently denying the need to strengthen cooperation with the West; Russia is demonstrating complete loyalty toward China and also approving initiatives within the framework of the SCO. In the meantime, its partnership relations with the former Union Republics are not always being carried out smoothly and unambiguously. And if regionalization should be primarily considered the cornerstone of Central Asian policy at the current stage, it is obvious that Central Asia cannot advance along this path in several directions at the same time. If cooperation with NATO is intensified, it is not worth hoping for the same to continue in the CSTO; if hydrocarbons are sent along one route, other deliveries might be possible, in all likelihood, in accordance with the "residual" principle.

As already noted, the SCO was a deliberately prepared "arena" on which the Chinese side could implement its CAR policy. In this respect, this organization can be regarded as the main tool of regionalization in the Chinese scenario. For some time, the SCO has been taking very successful practical steps as a system-forming element and paradigm of the region's progress, ensuring the main conditions for continuing CAR's existence as a political and economic subject of international politics: Central Asia's security and the efficient interaction of its countries. We can confidentially say that without the SCO, these two factors of Central Asian development would be in a less organized state—both security and multilateral cooperation required a center of gravity like the SCO.

⁹ From an interview by K.L. Syroezhkin "Dlya Kitaia ShOS—instrument, pozvoliaushchiy 'sidet na dvukh stuliiakh'" of 14 March, 2007. Radio interview at [www.inkar.info].

¹⁰ Bhadrakumar M.K. "Foul Play in the Great Game," *Asia Times*, 12 July, 2005.

¹¹ Stephen Blank, a professor at the U.S. Army War college, is quoted from L. Goldstein, "China in the New Central Asia: The Fen (RMB) is Mightier than the Sword," *The Fletcher Forum of World Affairs*, Vol. XXIX, No. 1, Winter 2005, p. 13.

¹² See: *Ibid.*, op. cit., pp. 13-34.

If the SCO is compared with the tools of regionalization available in the other countries participating in the geopolitical contest, this comparison is clearly in China's favor. Yes, Russia is still incredibly strong in the region, after turning it into its resource base, but it cannot stay this way forever with the general situation that is developing around Central Asia. During the first years after the collapse of the U.S.S.R., and during the country's further evolution, Moscow was able to preserve its actual leadership in Central Asia (although with varying success) thanks to the loyalty of the republics' leaders and the inertia of their policy as a whole. The rest of the world related to the new independent republics with a great deal of concern, which met the interests of the Russian Federation. But at the turn of the millennium, it became noticeable that Russia itself was beginning to abuse the Central Asian leaders' good attitude toward it and conduct an "inert" policy in Central Asia. This might lead to sad consequences for the Russian Federation, since by this time, the West's strategy toward CAR had basically formed. The states of the region might be drawn into the sphere of the West's activated policy, just as Azerbaijan, for example, has been drawn into it today. We believe that China helped Russia here, or, to be more precise, the fact that the interests of both countries coincided at the moment, which made it possible for them to coordinate their efforts. This is why the main intrigue of Central Asian regionalization today can be considered the future of the interrelations between the Russian Federation and the PRC: will they be able to remain strategic partners in conditions where China is trying to carry out regionalization of CA under its own auspices, and how will the relations of the two giants influence the region's republics?

So, much has changed in 15 years. Russia is still a key player in the geopolitical expanse of CA, but only one of several. Its authority among the local ruling elites is not as inviolable as it once was; relations with it are being strictly built on a business, rather than ideological, basis. For example, with respect to regionalization issues, the Russian Federation has suffered a serious strategic defeat in CA by allowing emergence of the SCO. Now it must recognize the PRC's full right to participate in the attempts to build CAR's future. The recent visit by Nursultan Nazarbaev to Russia demonstrated that Kazakhstan and Russia are still as close as ever. Their relations are intensifying, which is inevitably having an effect on the other countries in the region. In this respect, Central Asia and Russia are tied by much more than just pipelines, although the interrelations between Moscow and Beijing could create a problem. Russia itself is not insured against being drawn into the economic sphere of mighty China¹³—American scientists sounded the alarm as early as the end of the 1990s about the PRC's growing strength and Russia's demotion to a secondary place in Central Asian policy.¹⁴

The fragility and weak instrumental underpinning of the West's policy, the inertia of Russia's policy, as well as the power vacuum in Central Asia have prompted China to assume leadership in the region.

* * *

International regionalization is part of the globalization process, its continuation at the local level, and not its contradiction, as it may seem if we proceed from the term itself. For the national govern-

¹³ As well-known Russian Sinologist Vil Gelbras noted, "the Chinese question is that of Russia's further existence. For the first time in history, Russia has become a small country in all respects compared with China. So Russia still has to fully recognize the new situation and reconcile itself to it, which is tantamount to a giant national and socio-psychological upheaval" (V. Gelbras, "Kitaiskiy faktor vnutrennei i vneshnei politiki Rossii," available at [<http://www.carnegie.ru/ru/pubs/books/volume/48315.htm>]).

¹⁴ See: M.B. Olcott, "Russian-Chinese Relations and Central Asia," in: *Rapprochement or Rivalry: Russia-China Relations in a Changing Asia*, ed. by Sherman Garnett, Carnegie Institute for International Peace, Washington, 2000, p. 391.

ments, regionalization does not mean giving up their sovereignty. As practice shows, not only young states are refraining from such a step. If we look at the course of European integration, we can convince ourselves that even European nations with their wealth of political experience are not ready to share their independence. If with respect to EU integration, the matter concerns the pragmatic merging of state powers (so that each of the member states can build up their own potential), regionalization of Central Asia will most likely take place according to the “fairway” formula—the satellite state following the foreign and defense policy of the leader state, which of course implies extremely close trade and economic ties between them. In practice, this is happening by small states primarily orienting their economic activity toward the “leader,” establishing close military-political contacts, and applying mutual preferential trade conditions. It is obvious that building such relations requires sophistication of the decision-making process: this is inevitable, since the interests of several countries are coming together and intercepting, but if we take a rational approach, this does not seem to be too high a price to pay for peaceful and sustainable development.

Although the planetary community exists as a system of individual states that are independent of each other, in reality it has never actually functioned under these conditions. In order to do this, isolation should serve as the basic principle of interrelations between countries of the world. In reality, during multifaceted political and economic contacts, relations of interdependence and cooperation of varying degrees of intensity were established between individual states, while in international affairs, the countries have been acting as allies from time immemorial. Those with stronger and more reliable partners were usually the most successful. In any case, foreign relations presume that the sides coming into contact with each other will become dependent on each other to a certain extent. This phenomenon acquires its most “concentrated” expression during globalization processes.

According to the laws of sociopolitical development, small or weak states (exclusively in the sense of their comprehensive capacities) inevitably find themselves drawn into the economic and political sphere of a particular regional nation (if there is such a nation in the given geopolitical space). Inevitable gravitation toward a center of power creates a certain dependence on the leader state. There is essentially no alternative to this scenario, particularly under the conditions of today’s contradictory international order. The situation becomes complicated if more than one unconditional power appears in the region, which creates prerequisites for a struggle among the leaders.

When, at the very beginning of the 1990s, independent states formed in Central Asia, the world long continued to perceive them as “Soviet” republics. They were not imagined as being separate from Russia and were automatically included in the Russian Federation’s sphere of influence, to the envy of other centers of power dreaming of such loyal partner states. It seemed that this situation would be strong enough to preserve the status quo in the region for several decades to come, although the fact that China is located next to the Central Asian states and three of the five republics have a common border with it was perceived, even then, by many as a challenge. It was clear that the PRC was on the crest of a nationalistic upswing, which could raise it to an unprecedented level of might and influence in Central Asia, as well as in the world. Even the boldest scientific forecasts did not presume that Beijing would be able to have a significant influence on the balance of power in the region, at least in the first quarter of the 21st century.

In addition to the Russian factor itself and the multitude of common interests and traits for the Russian Federation and Central Asia, other foreign players had their ambitions, whose stakes in the regional game were extremely impressive—this was supposed to prevent any spread of the Chinese influence in Central Asia. It was considered that, despite all of Beijing’s geo-economic trump cards, it did not have enough experience or clout to climb to a priority position in managing affairs in the Central Asian countries, since there had been no direct systemic contacts between China and CAR for almost fifty years.

Nevertheless, the current situation in the region indicates there is a new configuration of forces, in which the PRC occupies one of the leading places. The situation that has developed over the past few years is noteworthy in that China has succeeded in surpassing the U.S. The PRC demonstrated brilliant diplomacy and policy by being able to win important strategic victories without aggravating relations with the regional or nonregional players.

* * *

The topic on which this article is based is difficult to identify. For example, if we are talking about narrow professional and political scientific circles, the Central Asian topic is discussed widely and actively in them, but in so doing specialists usually rely on information that everyone is equally aware of. That is, the authors who write about the geopolitical and geo-economic processes going on in Central Asia can rarely consciously claim to have any new information. Their task is to reconsider what essentially everyone already knows, as well as interpret the events and processes as accurately as possible. In this respect, Sinologists who have extensive knowledge about the PRC—one of the key players in Central Asia—have certain trump cards, with the help of which they can make more precise assessments and forecasts. This is why we make numerous references in this article to the opinion of well-known specialists on China.

On the whole, a review of Central Asian reality from the viewpoint of regionalization is shedding light on the prospects of a large number of international contradictions in this area. This will at least make it possible to better understand regional interaction, without departing from the issue of energy cooperation, rather intensifying it.

In the new circumstances that have developed in Central Asia, it seems the geopolitical players are currently coming across previously unknown game rules due to the fact that much from now on in decision-making will be determined not by the desire to maintain the status quo and a certain balance, as was the case until recently, but by the need to build a new regional order in light of the actualizing threats to security, both foreign and domestic. In this respect, each of the republics will apparently exert efforts aimed at streamlining its international cooperation, both at the bilateral level and in the regional format. In this light, one of the main tasks is to improve the collective security system in Central Asia. It is precisely due to the change in approach to regional interaction that China is gaining additional advantages in CAR. In this context, the states of the region are in different situations, but none of them has enough confidence in the future: both great hopes and serious worries are associated with the PRC.

On the one hand, China's active position in the region is causing a multitude of new possibilities for intensifying multilateral, including, bilateral cooperation with Beijing for the Central Asian countries, opening up the rich potential of this cooperation, and intensifying comprehensive exchange with the PRC. Such relations are acting as the key factor in favorable development of the entire Central Asian Region. On the other hand, all of this implies risky rapprochement with an Eastern neighbor that is extremely dominant in terms of economic and military potential, as well as the need to entrust the SCO bodies with some of the tasks for ensuring national development and security, relying on collective decision mechanisms.

Nevertheless, all other things being equal, neither the course of the geopolitical contest, nor the probable deviations from the policy of certain Central Asian republics designated within the SCO will be able to break the general trend toward China becoming the main regional nation. Such a disciplined and headstrong player as the PRC has all the necessary prerequisites for achieving the set goals. Meanwhile, the SCO has strategic significance in Beijing's set of tools, which intends to put its plans regarding the Central Asian Region into practice mainly by advancing the SCO project. In this way,

the prospects for the SCO are defining China's potential place in CAR and the relations between the republics of the latter and Beijing. As for the regionalization of Central Asia, CAR is trying to integrate into the global market, in so doing preserving not only its geographical, but also strategic integrity. But with such a neighbor as present-day China, Central Asia has very few scenarios for this at its disposal—most of them belong to China.

GLOBALIZATION CHALLENGES IN CENTRAL ASIA AND CERTAIN ASPECTS OF CHINA'S CENTRAL ASIAN POLICIES

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Recently countries and continents have become aware, to different degrees, of common globalization problems. More than that: political and academic communities of various parties, academic schools, and trends have been busying themselves with investigations into the nature of these problems. This explains the variety of approaches to the current globalization problems. The too complex and too ambiguous processes permit convincing arguments in favor of widely diverse approaches. At the same time, when talking about globalization and its impact on specific countries and regions (in the developing world in particular), it is wise to discuss it in the context of two key trends: the world's increasingly universal nature and its growing diversity. Their interaction and confrontation determines the world's development, its highly ambiguous nature and, most important, the alternatives for each nation and each state.¹

It looks as though, in the last decades of the 20th century, mankind reconciled itself to the inevitable—immersion into globalization, its positive and negative sides notwithstanding. The forecasts of the development vectors of world civilization are as varied as ever. This is also determined by the fact that any country or group of countries that offers mankind a conception or vision of the future claims a privileged position for itself over others in an effort to protect its future interests. The futu-

¹ See: S. Huntington, *The Clash of Civilizations and the Remaking of World Order*, Touchstone Books, New York, 1996, pp. 50-66.

rologists and political scientists agree that all spheres of human and state activities will undergo radical changes. This is true, first and foremost, of politics, the economy, culture, the environment, and the relations between countries, regions, religions, races, etc. On the other hand, we have to admit that globalization (particularly its international political aspect) requires tighter control and regulation on an increasingly wider scale. In fact, this is developing into an imperative. Globalization of science, technology, and communication in the crowded world with its highly concentrated capital and economy and against the background of potentially destructive ecological processes and military might demands that the risks of further evolution of world economy and international relations be reduced to the minimum.

In short, globalization requires greater regulation of the ever-widening spheres of human endeavor.²

In view of the above, the developing countries should treat accelerated, or “catching-up,” development to uproot poverty and improve the standard of living while cooperating as much as possible with the developed countries as a priority. Conflicts with them over all sorts of problems of contemporary world order should be avoided.

The emerging globalization structures give rise to the following questions: Which processes will emerge as the most promising and dynamic? To what extent will most states be involved in them? Will these countries and nations be able to affect the course of these processes and become their active participants to ensure a dignified life for their citizens, or will they remain forever at history’s curbside?

We mentioned above that the contemporary world has to cope with the problem created by two intertwining key trends: toward unification and deeper interdependence of states and nations, on the one hand, and their increasing diversity, on the other.³ Today, as at turning points in the past, the way world civilization further advances and its changing image will be determined not so much by economic, as by political and subjective reasons and, quite often, by the personal will of the leaders.

The above is directly related to the Central Asian states: will they and particularly their leaders be able to face the globalization challenges and launch the very much-needed coordinated shifts from which the region and all countries will profit? The region’s political leaders should primarily pool their efforts to create three real images of their region acceptable to the world community:

1. Central Asia as a single developing region. There are objective historical, political, and economic prerequisites for this.
2. Central Asia as a united geopolitical and geo-economic intermediary between the East and the West, the North and the South. There are real prerequisites for this as well. It should be said that in the historical and cultural respect, the region long remained a meeting place of world cultures: Russian, Persian, Chinese, and Arabic (through Islam). The area is also a meeting place of the world religions.
3. Central Asia as a united front of struggle against transborder threats, the list of which regrettably grows longer every day.⁴
 - First, the above is not easily achieved: there are too many state, political, and economic barriers, as well as ethnic, psychological, and cultural prejudices inherited from the past; the recent history of the independent states is responsible for the new prejudices of this sort.

² See: N.A. Kosolapov, “Legitimnost v mezhdunarodnykh otnosheniakh: evoliutsia i sovremennoe sostoianie problemy,” *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 2, 2005, pp. 4-6.

³ See: S. Huntington, *op. cit.*

⁴ See: M. Imanaliev, *Ocherki o vneshney politike Kyrgyzstana*, Sabyr Publishers, Bishkek, 2002, p. 115.

- Second, the Central Asian states should start (or re-start) a historical process better described as restoration of the Great Silk Route. It should not be interpreted as simple restoration of transport communications and the exchange of cultural achievements (which is important in its own way). Restoration should develop into a long-term historical process covering the vast expanse between the Atlantic and the Pacific. It should be developed as a Eurasian process—without the unions or alliances on which certain politicians insist.

It is appropriate here to say that all Central Asian republics are demonstrating an urge to build national states as quickly as possible. Today, after several years of independent development and despite the nostalgia certain political forces are striving to keep on the front burner, the local political elites are growing more and more convinced that history cannot be reversed and that national states should be built as quickly as possible.

The Central Asian countries and their neighbors are developing against a very specific historical background in a very specific context.

Two historic moments of the recent past are highly important for a more or less adequate idea of current and possible developments. First, the Soviet Union, the world's second mightiest power (of which the Central Asian republics were part), all of a sudden collapsed into a heap of unstable states, most of which are still struggling with economic and political crises; in the list of the world's most successful states, they rank below sixtieth or even hundredth place. Second, in fifteen years the Central Asian republics have made an arduous journey from the "imperial outskirts" to the center of attraction of the main powers' varying interests. This opens wider prospects but is fraught with certain threats.⁵

The choice of development path was highly personalized, but certain individual historical, cultural, geographic, ethnic, and psychological specifics and descriptions of the nations and countries could not be excluded either. This explains why the key conceptions of progress of all five Central Asian republics differ to a certain extent from one another and are radically different in certain respects. They do not clash, which means that there are no objective reasons for mutual rejection.

The countries have not yet freed themselves from indiscriminate copying of foreign (or Soviet) socioeconomic patterns and experience. It should be said, however, that they have developed certain outlines of their own conceptual elements. So far, the low level and fragmentary economic integration into the world economy remain a serious problem. The East and the West are mainly interested in regional energy resources—this is an obvious fact nobody tries to play down. Who will "reach Central Asia's oil and gas reservoir ahead of the others" remains to be seen.⁶

The Central Asian countries' foreign policy landmarks changed many times during the short period of their sovereign development. This is explained by lack of experience, inability to build up realistic foreign policy projects and elaborate adequate technologies, as well as the foreign policy discussions of Central Asia's main partners.

Not without foreign influence, the Central Asian countries tried to set up economic or even military-political alliances, but the idea was stillborn. The terrorist acts of 9/11 and the events that followed changed the general situation in Central Asia to a great extent and affected their foreign political preferences.⁷ The military actions of the counterterrorist coalition in Afghanistan defused tension in the region to a certain degree, but did not remove it altogether.

The Central Asian countries hailed the unity of the leading powers in the joint struggle against international terrorism on a global scale, but deployment of American troops in the Central Asian

⁵ See: K. Tokaev, *Pod stiygom nezavisimosti*, Almaty, 1997, pp. 17-35.

⁶ See: K. Sultanov, *Reformy v Kazakhstane i Kitae*, Elorda Publishers, Astana, 2000, pp. 102-107.

⁷ See: Xu Jinhua, "Istoricheskie izmeneniya geopoliticheskoy situatsii v Tsentral'noy Azii," *Obzor Azii i Afriki*, No. 3, 2006, pp. 63-65.

states called for far from simple adjustments of foreign policy schemes and created new relations among the key players on the Central Asian field. In this context, the local states believe it extremely important to prevent a conflict of interests in the region among the key world powers and among certain local leaders.

The barriers between the Central Asian countries and their southern neighbors are gradually disappearing; this is a recent process accelerated by the counterterrorist operation in Afghanistan. These countries are not only described by one blanket term on increasingly frequent occasions—they are united in common U.S.-promoted programs. This will undoubtedly alter the local countries' political course in the foreseeable future. The historical and geographic descriptions of the region cover not only five former Soviet republics, but also Afghanistan, Iran, and Mongolia, as well as part of Pakistan, India, China, and Russia. In the Soviet Union, the term Central Asia (*Sredniaia Azia*) was limited to Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan. The Soviet tradition described Afghanistan and other states as the Middle East, South Asia, etc. This explains why the West's consistent attempts to unite the former Soviet republics and their southern neighbors are of fundamental importance for Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan: they are creating far-reaching repercussions in the sphere of politics, the economy and, most important, worldview ideas.

We have already written above that different states have tried and are still trying, with varying degrees of intensity, to build relationships with their neighbors (as part of the region and individually) that would meet their interests and allow them to create zones of their political and economic influence in Central Asia. Here are several examples.

Turkey's Central Asian strategy hinged on the following highly attractive aspects: (1) development model; (2) ethnolinguistic closeness, and (3) shared religious identity. Turkey posed itself the task of forming "Turkish groups of influence" in the Central Asian countries to be assured of its presence in the region in the short- and long-term perspective. To achieve this, Turkey is enrolling thousands of Central Asian students in its higher educational establishments.

Turkey's plans for cementing its influence through local cultural figures, businessmen, etc. failed due to rivaling players in the same field and certain miscalculations of Turkish politicians. The Central Asian countries rejected the idea of Turkey as an "older brother."

Iran placed its stakes on Islam and the Islamic culture, but all the Central Asian countries, with the exception of Tajikistan, rejected the Iranian version of Islam and Iranian business practices. Its influence is felt among small groups of experts in Iran and small business teams.

It should be borne in mind that the Iranian, Pakistani, and Indian experience was never studied in depth in Central Asia and was not popular with the so-called interest groups. In common terms this means that Central Asia rejected their experience and potential. Neither Iran, nor Pakistan, nor India exerts any considerable influence on the Central Asian countries: it is limited to individual projects.

Western Europe (Germany, the U.K., France, Switzerland, and others) at first tried to promote democratization of the local countries' domestic policy through the EU, OSCE, and within bilateral relations. On some occasions they hinged material and economic assistance on democratization. It seems that the Europeans intended to put pressure on the local leaders and build a civil society through humanitarian and human rights activities. Their reliance on individuals proved to be an insurmountable barrier on the road to democracy.

The mounting threat of Islamic extremism, al-Qa'eda, and other international terrorist organizations, which became obvious at the turn of the 21st century, forced the Europeans and Americans to concentrate on cooperation with the Central Asian countries in the security sphere and antiterrorist efforts. They had to play down (or discontinue) criticism of these countries' human rights records and stalling democratization. Many experts believe, however, that this is explained by the fierce rivalry among the world powers over the region's mineral and raw material riches.

Russia, the United States, and China are the three most influential countries when it comes to Central Asia's domestic developments.

As distinct from the two other powers, the Russian Federation not only has highly justified interests in the region—for historical reasons it is partly responsible for its future.

Its still strong cultural and humanitarian presence is a serious factor of influence; Russia controls nearly all transport and communication lines that link Central Asia with the outside world.⁸

The “pro-Russian interest groups” especially strong in Kazakhstan, Kyrgyzstan, and Tajikistan provide Russia with great advantages over other countries.

The United States spares no effort to influence the leaders and the “interest groups,” as well as exploit the republic's financial and economic dependence to create a new “pro-Western” system of state governance, civil society, democratic institutions, and the basic elements of a market economy. America's rapidly increasing interest in Central Asia is geopolitically conditioned not only by the U.S.'s desire to gain domination over raw material resources, but also by the region's geographic location. Domination in Central Asia means control of this vast territory and, more important, of the main regional and global rivals (Russia and China). Over the course of time, America will become even more attracted by the region's geopolitical advantages; Central Asia could remain the world's “hot spot” for many years to come.

It should be said here that in the wake of 9/11 and due to America's and Russia's active involvement in Central Asia (not limited to military bases), local foreign policy became reduced to the relations between these two powers. Russia does not want to compete for spheres of influence (with America and partly with China); it wants to identify the most efficient forms of extensive foreign policy coordination for the sake of Central Asian security and stability, as well as economic progress, in full conformity with the new formula “security through development.”

So far the conflict of interests between the United States and Russia in Central Asia has not yet reached one of open confrontation; it is limited to common antiterrorist and anti-extremist aims. If it comes to the fore, all the Central Asian leaders will face a very hard choice indeed.

Stronger American and Russian influence on the region's domestic developments has been spurred on by the change in political elites, a process that has already begun in Kyrgyzstan and Turkmenistan.

There is another very specific feature. The Baltic countries, which have no alternative to European integration, should be envied: they can pursue a more or less consistent foreign policy supported by their populations (with the exception of the Russian-speaking residents of Latvia and Estonia). The Russian speakers, on the other hand, do not object to Europeanization, which they probably accept; in the case of the Baltics, there are tenacious obsolete ideas about the world and just as obsolete interests of the ethnolinguistic groups. Central Asia, on the other hand, is pulled between several geopolitical factors: Western, Russian, Islamic and, partly, Chinese.

On the domestic scene, the geopolitical factors are represented to different degrees by various groups inside the emerging political and business elites. China, one of the largest neighbors, is the only exception: so far there are no pro-Chinese groups in the Central Asian countries, but the developing trade and economic relations will sooner or later create a pro-Chinese business elite. In turn, China is eager to demonstrate its peaceful and predictable intentions and its readiness to extend assistance when needed.

For their part, the Central Asian republics should work hard to prevent a conflict of interests among the key players: indeed, each of them can operate within its own sector without encroaching on the sectors of others. This is a dream—yet a partly achievable dream. Broad and open cooperation (individual or collective) between the Central Asian states and the leading powers could contribute to

⁸ See: Zhu Zhenghong, “Regional Security in Central Asia and Russia after 9/11,” *Far Eastern Affairs*, No. 1, 2005.

the local countries' stability, push them toward real integration, and revive the efforts to restore the Great Silk Route.

In view of the above, it has become extremely important to analyze China's Central Asian policy, a "new old player" that has just outlined its interests in the region and is "trying on" the role of regional leader. No adequate assessment of the Central Asian context and prospects is possible without an analysis of the Chinese factor, its role in the antiterrorist struggle, China's perception of the threats to its own security, and Beijing's true interests and policy in the region. Central Asia, regarded for many centuries as a more or less secure "rear area," is developing into one of the main factors of China's foreign policy.

Beijing has already included post-Soviet Central Asia (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan), with a population of over 60 million, in the so-called "external" strategic area directly related to its national interests. The common border (over 3,700 km long) is attracting the particular attention of the Chinese leaders. In fact, together with "separatist-minded" Taiwan, the Chinese western provinces are seen as threats to the country's stability and territorial integrity. This explains China's active diplomatic efforts in this respect.

In the first half of the 1990s, immediately after the Soviet Union disintegrated and during the first years of the Central Asian countries' independence, China showed no interest in the region. It established diplomatic relations with the newly independent states and continued to be concerned mainly with political stability in XUAR and more extensive trade and economic contacts with the Central Asian republics. The program speech Premier of the PRC State Council Li Peng made in April 1994 in Tashkent during his first Central Asian tour deserves special mention in this context. The Chinese leader identified four main trends of his country's relations with the new states: (1) good-neighborly relations, friendship and peaceful coexistence; (2) mutually advantageous cooperation for the sake of prosperity for all; (3) mutual respect of the choice of the people; non-interference in domestic affairs; (4) mutual respect of independence and sovereignty, promotion of regional stability.⁹ On the whole, China demonstrated restraint, largely due to the instability in the region; the statement reflected Beijing's real interests and real concerns of the time.

Unfavorable Central Asian developments, however, the post-Soviet foreign influence vacuum, the mounting threat of Islamic fundamentalism, the accelerating rivalry over the region's oil, gas, and mineral resources, the persistent efforts of the Central Asian states to find partners outside the region, etc. forced China to be more active. The decision was prompted by the country's economic, social, and cultural progress at home. The PRC, which badly needed energy resources (in which the Central Asian countries are very rich), had to work hard to achieve agreements on more extensive cooperation in this sphere: investments in oil and gas fields and pipelines to move energy resources from Central Asia to China across XUAR. On the other hand, to implement these plans, China needed stability and security on its own territory and in XUAR to ensure stable transportation of energy resources and uninterrupted railway communication. It is no wonder that Beijing is resolved to prevent any serious collisions in Central Asia, the most dangerous of them being radical Islam and ethnic separatism. These threats, and the need to oppose greater foreign influence (particularly American), are responsible for China's decision to intensify its cooperation with Russia and the Central Asian republics, first within the Shanghai Five and later the SCO.

China's post-9/11 position is determined by the following factors. In the context of the counter-terrorist operation in Afghanistan, China acquired certain advantages, on the one hand, and several new security challenges, on the other. The international operation as such, removal of the Taliban regime and relative stability in Afghanistan, was in line with China's struggle against terrorism and separatism in XUAR: the Taliban and the XUAR extremist groups established close contacts. Experts know

⁹ See: Li Peng's Speech in Tashkent, *Xinhua Agency*, 18 April, 1994.

of over 20 organizations operating in XUAR, their methods ranging from mass actions to terrorist acts. Some of the Xinjiang separatist groups maintained close ties with the Taliban. The situation in the autonomous region improved when the threat of extremism was weakened and Afghanistan received a new government. By the same token, the extremist groups in XUAR were deprived of the Taliban's strategic support.

At the same time, it became clear that the Afghan campaign had another side related to China's interests. We have in mind the military bases America and its allies deployed in two SCO members: Kyrgyzstan (which borders on China) and Uzbekistan (which has no common border with China). (Later the base in Khankala was evacuated.) In this way, America became a de facto neighbor of the Central Asian countries, a fact that directly affects decision-making in domestic and foreign policy. The American presence in Central Asia affects the Central Asian policy of other states that hold traditionally strong positions in the region.

China was cautious about the changes: in the long-term perspective, these bases looked like a threat to its security. Some of the Chinese experts went as far as saying that in the future they could be used against China and that the operation in Afghanistan was nothing more than an opportunity to move America's military infrastructure closer to the western borders of the Celestial Empire.

The bases caused headaches: for several years China has been setting up a zone of stability and security along its borders expected to promote reforms at home. Today, "secure neighborhood," one of the key principles of China's Eurasian policy, is under strain. The bases and the changes in the political elites in Central Asia forced Beijing to readjust its main foreign policy tasks.

This adds special significance to the program speech Hu Jintao, Chinese leader of the fourth generation, delivered in 2004 in Tashkent, in which he outlined China's priorities in Central Asia. This speech demonstrated the continuity and stability of Beijing's foreign policy course. China still treats security, trade, and economic relations as a priority with a special emphasis on the energy and raw material sectors. To achieve this, China plans to extend and deepen bilateral relations with the key regional countries and use the SCO as a tool.

China's Central Asian strategy also included border delimitation with the Central Asian republics. Between 1994 and 2002, it signed border agreements with Kazakhstan, Kyrgyzstan, and Tajikistan and teamed with Russia in the process. Today, this very sensitive issue, which burdened bilateral relations, has been removed from the agenda.

The United States is the only superpower; Russia has traditional relations with Central Asia, while China is obviously trying to close the gap between itself and its main rivals through the SCO.

Historically, the SCO appeared because Russia, China, and its Central Asian neighbors wanted to settle the border problems and gain confidence in the military sphere in the border area. They sought security and greater stability in Central Asia, a region into which terrorists from Afghanistan penetrated in greater numbers and in which extremist and separatist sentiments were rapidly gaining momentum. In 1996, these countries deemed it wise to unite into the Shanghai Five, which gradually developed into an important tool of regional security.

The agreements on confidence-building measures and trimming the armed forces deployed in the border areas created a favorable atmosphere, led to the settlement of border issues, and extended cooperation. In 2001, when Uzbekistan joined it, the Shanghai Five was transformed into the SCO. The key principles of the new structure envisaged in its documents are mutual trust, mutual advantages, equality, respect for the interests of all sides, mutual consultations, decisions by consensus, and voluntary obligation to fulfill the agreements.¹⁰

¹⁰ See: I.N. Komissina, A.A. Kurtov, *Shanghaiskaia organizatsia sotrudnichestva: stanovlenie novoy real'nosti*, ed. by Doctor of History E.M. Kozhokin, Russian Institute of Strategic Research, Moscow, 2005, pp. 34-35.

The PRC was instrumental in setting up the structure: this was its way of demonstrating its interests in Central Asia. While actively promoting the SCO, Beijing proceeded from the assumption that its stronger Central Asian position would add to the stability and security of a region dangerously close to its borders. The settlement of the border issues made the borders more secure. Not only that: it turned the borders into a channel of active contacts with the Central Asian neighbors. The ethnic, religious, cultural, and historical closeness of the Central Asian nations and the Xinjiang national minorities, which share many everyday customs, is another favorable factor.

Beijing counts on Central Asia's positive contribution to its efforts to develop the country's west in the form of energy and raw materials badly needed for the fast-growing Chinese economy.

China is convinced that the SCO is a powerful diplomatic tool to be used in Central Asia.

It supplied the PRC with a mechanism through which security, involvement in the region's development, and all-round cooperation with the Central Asian republics can be achieved. On the other hand, for Chinese experts, the SCO is visible proof of a strategic compromise and balance between Russia and China in Central Asia; their mutual recognition of each other's interests and realization of strategic partnership in the region. This was reflected in practically all the SCO documents, including those signed at the Shanghai anniversary summit.

The SCO's international contacts deserve special mention; the same applies to the procedures for enrolling new members and granting observer status, which are coming to the fore. During the five years of its existence, the SCO has not enrolled any new members; it granted observer status to Mongolia, Iran, India, and Pakistan. Some of them wanted to become SCO members. The Organization set up a "Contact SCO-Afghanistan Group." For several years now, the leaders of neighboring countries have been invited to SCO events. The SCO has partnership relations with ASEAN, CIS, and EurAsEC and an U.N. observer status.

The SCO members never tire of repeating that their organization is open to new members and is not aimed against third countries and organizations. Speaking at the 2006 SCO summit in Shanghai, PRC Chairman Hu Jintao confirmed: "The SCO is not a military-political bloc closed to new members; it is against geopolitical confrontation and is not aimed against any other country or organization. We should ensure security and stability in the world through the broadest possible international cooperation and active exchanges with other countries." President of the Russian Federation Vladimir Putin has pointed out: "The SCO is an open organization. It is not isolated from the world and has no intention of becoming a closed alliance ... or bloc. The SCO acts with the firm conviction that Central Asia should not develop into an arena of confrontation—either external or internal. We should concentrate on the things that unite us; we should respect the right of every country to develop according to individual models and promote democracy in the context of national history and national traditions. The SCO has no intention of competing with anyone." According to experts, the statements made by the Chinese and Russian leaders differed from the previous Astana summit that demanded the United States limit its military presence in the region. The Shanghai summit invited all the world centers (particularly the U.S., which after 9/11 and deployment of its military bases in the region became a factor of real politics there) to seek common and mutually acceptable solutions. It seems that in the near future, the SCO might put a SCO-U.S. or a SCO-NATO contact group on the agenda to maintain working contacts, develop joint projects, and work together toward security and stability in Central Asia and Afghanistan, fight terrorism, drug trafficking, illegal arms trade, and other transborder crimes. This might prove to be the first step toward broader cooperation, which would take into account the regional interests of the major powers and the local countries.

Recently, the SCO has been promoting closer trade and economic, cultural, and humanitarian contacts among its members. So far trade and economic cooperation is obviously undeveloped, which is explained by the local countries' fairly low economic development level and the different economic interests of the PRC and Russia. The organization, however, has posed itself the task of achiev-

ing an economic upsurge and extending trade and economic relations. China, with its strong economy and increasing impact on the region ensured by its involvement in the energy and transport projects in Kazakhstan, Kyrgyzstan, and Uzbekistan, is obviously claiming the role of the SCO's economic leader.

In their bilateral relations the Chinese leaders are as cautious as ever; they never speed up developments, being in favor of gradual yet steady growth of their country's economic presence in the region. China, aware of the imminent radical political changes in the Central Asian republics (which have already taken place in some countries that acquired new leaders and new political elites), is working hard to cement its position through political, financial, economic, and other tools. The case of Kyrgyzstan is very illustrative in this respect.

The events of 24 March, 2005 in the Republic of Kyrgyzstan, which brought the opposition to power, and later developments caused tension in the relations between the two countries and made Beijing very cautious. An upsurge of opposition activities in the spring of 2005 in Kyrgyzstan failed to prepare the Chinese leaders for the revolutionary events. It seems that Beijing's position was caused by several factors, the main ones being:

- Internal instability in Kyrgyzstan, lack of unity not only among the power branches, but also inside the government team on the key strategic issues;
- The advent to power of some opposition leaders previously known for their anti-Chinese sentiments;
- The new leaders' obviously shaky foreign policy priorities, lack of continuity, coordinated approaches and policy in relations with China on the issues Beijing treats as priorities;
- Criticism by individual politicians of the achieved agreements and treaties signed by the previous leaders in 1992-2005;
- The increased risk of destabilization in Xinjiang, which borders on Kyrgyzstan;
- Stronger foreign (particularly American) influence on Kyrgyzstan.

In view of the above, Beijing stepped aside to wait and see and to allow the Kyrgyz side to make the first move. The dearth of political contacts limited to the meetings between Kurmanbek Bakiev and Hu Jintao at the SCO summit in Astana, Felix Kulov and Wen Jiabao in Moscow, and two visits of foreign ministers R. Otunbaeva and A. Jekshenkulov to China failed to completely restore the relations: the Kyrgyz side was too vague and ambiguous on a number of issues. Some members of the political community, including those who held official posts, still insisted on a revision of the border settlements.

In this context, the sides deemed it wise to concentrate on President Bakiev's visit to Beijing, which took place on 9-10 June, 2006. It was expected to remove all the disagreements and problems; each of the sides set itself specific aims and expected to achieve favorable results. Beijing probably expected that the political side of bilateral cooperation would be clarified; the Chinese leaders tried hard to acquire a clear idea of the Kyrgyz president's position on the key bilateral issues and on regional and international policy. They needed to know whether the course was steady enough in the long-term perspective. On the whole, Beijing sought to restore an atmosphere of political confidence between the two countries. The level of political confidence in the relations between the two leaders in the security sphere has been instrumental and will remain instrumental in other spheres (trade and the economy in particular); it will set the pace for implementing large-scale energy projects. Beijing's readiness to fully restore cooperation depended on the Kyrgyz leadership's position on the following issues:

- Taiwan and Tibet;

- The joint struggle against separatism in Xinjiang, extremism, and terrorism;
- Continuity of the country's political course and continued adherence to the earlier bilateral agreements and treaties, particularly those of a political nature;
- Border settlement;
- America's military presence in Kyrgyzstan;
- Reform of the U.N. Security Council.

The above issues appeared in one form or another on President Bakiev's agenda and in the Joint Declaration that summed up the visit.

President Bakiev's Chinese visit was intended to confirm the country's continued adherence to the earlier agreements and treaties (particularly those of a political nature) and to border settlement. There were fears that Beijing might interpret the fairly vague position of the new Kyrgyz leader on the above issues as the new regime's weakness and double standards, which could potentially freeze the relations between the countries at the lowest level Beijing would find adequate. The Kyrgyz president's official statement of his country's continued support of the earlier treaties and agreements (despite the domestic disagreements over them) was interpreted as an advance toward restoring an atmosphere of mutual political trust.

The Joint Declaration confirmed continued adherence to the principles registered in the documents signed and published during the preceding 14 years; it also expressed satisfaction with the achievements in the political, trade and economic, humanitarian, and security spheres during the entire period of diplomatic relations between the two countries. The leaders agreed that friendship between their countries meets the basic interests of their nations and promotes peace in the world and regional development.

The statements about continued adherence to the Treaty on Good-Neighborly Relations, Friendship, and Cooperation between the Kyrgyz Republic and the People's Republic of China and the Program of Cooperation Between the Kyrgyz Republic and the People's Republic of China for 2004-2014 were of fundamental importance. The sides recognized the great historic importance of the Protocol between the Government of the Kyrgyz Republic and the Government of the People's Republic of China on the Demarcation of the Chinese-Kyrgyz State Border and the Map of the State Border between the Kyrgyz Republic and the People's Republic of China (as an appendix to the Protocol). The documents finally resolved the border disputes between the two countries. The sides pledged to adhere to the signed agreements and border-related documents and actively work toward turning the border area into a zone of perpetual peace and friendship to be inherited by future generations.

Bishkek confirmed its former adherence to the "one China" policy; it declared that it was against any forms of "independence for Taiwan," including "legalization of Taiwan's independence," against any attempts at setting up "two Chinas," "one China, one Taiwan;" and against Taiwan's involvement in any international organizations, membership in which is limited to sovereign states. The Kyrgyz side confirmed that it was not going to establish official relations or official contacts with Taiwan.

In turn, Beijing confirmed its support of the Kyrgyz Republic's efforts to preserve its independence, state sovereignty, and territorial integrity; ensure stability at home and economic development. China highly assessed Kyrgyzstan's contribution to Central Asia's security, stability, and cooperation.

The leaders of the two countries confirmed their willingness to fight terrorism, extremism, and separatism; they intended to promote coordination and interaction between the two countries' law-enforcement and security structures. They were resolved to go on, within the SCO, with effective measures to fight together against all types of terrorism (including the Eastern Turkestan terrorist forces) to ensure peace and security in both countries and in the region. The heads of both states confirmed

that struggle against the Eastern Turkestan terrorist structure remains one of the important parts of the international antiterrorist struggle. Kyrgyzstan and China will develop contacts between their defense structures.

America's military presence in Kyrgyzstan and the U.N. reform were also important items in the bilateral negotiations.

China repeatedly stated that it shared Kyrgyzstan's position on America's military presence in the republic, which rented its airbase to the armed forces of the counterterrorist coalition. Kyrgyzstan's previous leaders coordinated this decision with the CSTO and SCO partners. At the same time, the PRC is very resolute about the time-limits for the American airbase at Manas airport and is against extending its mandate beyond the framework of the counterterrorist operation in Afghanistan. It seems that the Chinese leaders convinced President Bakiev that their position was completely justified and acquired his support. The Joint Declaration says that Kyrgyzstan and China will "not permit the use of their territories by third countries to the detriment of their state sovereignty. They will not permit organizations and alliances that threaten the sovereignty, security, and territorial integrity of the other side to operate on their territories."

With respect to reforming the U.N., the joint document set forth a position very close to the one held by Beijing, which means that the sides probably agreed on this issue as well.

Economic issues were not prominent on the negotiation agenda and, contrary to the statements of some Kyrgyz politicians, no breakthrough decisions were reached. From the Chinese viewpoint, Kyrgyzstan is not a promising economic partner; therefore it limited itself to the usual grant of \$70 million to help keep the Kyrgyz economy afloat and, after insistent requests by the Kyrgyz leaders, a government loan for building a cement works in Kyzyl-Kia in the south of Kyrgyzstan was granted. Experts are convinced, however, that in the absence of adequate management and financial and economic estimations, the work may repeat the sad fate of the Kyrgyz-Chinese paper mill. As was expected, the Chinese leaders suggested that the economic projects Kyrgyzstan regarded as a priority (a China-Kyrgyzstan-Uzbekistan railway and export of energy to China), which have been studied and discussed for several years now, should be further investigated. This means that Beijing is not interested in them. Both are economically dubious and very expensive (over \$2 billion). Even more important is the fact that, if implemented, both projects will directly affect the social-economic situation in Xinjiang. The Chinese leaders remain unconvinced that political stability in Kyrgyzstan will continue; they are unwilling to link their own volatile autonomous region with Kyrgyzstan, in which political fashions change too often for their taste.

On the whole, President Bakiev's Chinese visit was intended to merely cut short the post-24 March, 2005 hiatus in bilateral relations, which had been going on too long. In the absence of "breakthrough" decisions in the economic sphere (which could not be expected too soon anyway), working contacts with the Chinese leadership were revived; confidence in the political sphere was also restored to a certain extent. This was the most important result of President Bakiev's visit to Beijing.

By and large, China's interests in Central Asia are not limited to energy, transport, communications, and markets for its products. There are also political interests suggested by the "American factor" in Central Asia.

The Central Asian context suggests that without China's active involvement (or, at least, without taking into account its interests in ensuring stability and security), none of the possible regional security systems will be reliable or effective. The opposite is also true: for the sake of a favorable situation in Central Asia, China should pursue a balanced policy.

CHINESE “ROOTS” AND RUSSIAN “BRANCHES” IN CENTRAL ASIA

*(On the Correlation of Chinese and
Russian Policy in the Region)*

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I n t r o d u c t i o n

China and Russia both look at Central Asia as a potentially promising, yet risky region, the potential/risk correlation being very different for them. For obvious reasons, the region, in which Russia is implementing several promising and important projects (the CSTO, EurAsEC), is highly important for it. China, which does not take part in these projects, is rapidly building up its economic and political presence in an effort to make up for the slow start. Russia and China are SCO members, an organization set up to neutralize the threat of terrorism, religious extremism, separatism, etc. and to promote economic and humanitarian cooperation among its members (China, Russia, Kazakhstan,

Uzbekistan, Kyrgyzstan, and Tajikistan). The next SCO summit will be held on 16 August, 2007 in Bishkek, the capital of Kyrgyzstan. This article offers a Russian approach to the Chinese Central Asian strategy. Indeed, which of its components objectively correspond to Russia's interests in integration and energy and which do not? What are China's priorities at the bilateral level and what is behind them? Which of the outside challenges (from Afghanistan, for example) may change the situation in the region and affect the policies of both countries? These and other questions are quite pertinent, therefore the answers to them call for continuous attention and profound investigation.

Regional Political Background

In 2007, China's Central Asian policy has been unfolding against a fairly contradictory background.

- First, the Color Revolutions, which until recently looked a sure possibility, appear less feasible today, while radicalization of the Islamic movements in Uzbekistan, Tajikistan, and Kyrgyzstan is looming as a real threat. The sudden death of Saparmurat Niyazov, the “eternal” leader of his country, and the election of Gurbanguly Berdymukhammedov as the new president of Turkmenistan in February 2007 bred fears of similar developments in other countries. Indeed, Turkmenistan's neighbors might prove unable to imitate a painless and smooth transfer of power, even within the ruling clan. The Central Asian countries might profit from

the Chinese model of a seamless transfer of power from the third to the fourth generation of leaders that the country demonstrated in 2002-2004. Unfortunately, this model is not acceptable for several institutional and national reasons.

- Second, the Taliban in Afghanistan is rapidly restoring its might and is as rapidly destabilizing the situation in the country, the Middle East, and Central Asia. For some time now, NATO has been inviting Russia and the CSTO to engage in real cooperation; the Americans are even more insistent. So far the calls remain unheeded: Russia has obviously had its share of adventures in the “Afghan anthill.” On the other hand, if the American project fails it will open the floodgates for Taliban expansion in the post-Soviet expanse, particularly in Tajikistan and Uzbekistan. In 2000-2001, Moscow and Dushanbe averted a catastrophe by supplying the Northern Alliance of Ahmad Shah Masoud with weapons, foodstuffs, etc., while the American operation “closed the Taliban file” for a while.
- Third, the economic gap between the region’s leaders (Kazakhstan) and outsiders (Kyrgyzstan and Tajikistan) shows no inclination toward narrowing; more than that—it is widening. The neighbors, near and distant alike (China, Russia, Iran, Turkey, the EU, and the U.S.) are responding differently to economic differentiation. Here we shall analyze the stands of only two actors—China and Russia.
- Fourth, the Chinese domestic development factors are indirectly felt in Central Asia. Today, China is working hard to bring its northwestern corner up to the economic level of its richer provinces; the northwest should pull together with the rest of the country and earn money by trading with its Central Asian neighbors. The “local” Chinese-Kazakhstani and Chinese-Kyrgyz free trade zones to be set up along China’s western borders will have a purely economic and modernizing effect on the western provinces.

Chinese Strategy: New Outlines and Integration Projects

Under these conditions, China has already outlined its new integration policies. Some of them can be discerned in the SCO, where three (unofficial) integration versions can be singled out:

- (1) the Chinese integration strategy (dominant);
- (2) Russia’s policy of preserving its regional niches (weaker than the Chinese policy);
- (3) the Central Asian component of profiting from cooperation for promoting modernization to put an end to the nagging backwardness (weak).

If implemented the Chinese project may, theoretically, create a new integrated Chinese-oriented expanse in Eurasia with the EurAsEC and CSTO as part of the SCO. This will replace the post-Soviet with a post-Chinese expanse based on the ancient plan of recovering the marginal (Central Asian) domains of the Celestial Empire. Beijing’s integration plans in the APR—the ASEAN+3 (Japan, South Korea, and China) or ASEAN + China in particular—look like an obvious globalization project for Eurasia and an alternative to the American scenario.

Russia and the Central Asian countries need China’s economic resources (in the form of investments, technologies, and trade), albeit in limited quantities. Moscow would hail the following integration model: Russian commodities and investments—Central Asian energy resources and raw materials (uranium and molybdenum)—Chinese investments, commodities, and technologies. The dues and tariffs should be lowered cautiously and selectively. Other alternatives are welcome. The Chinese

version, now in effect, promises no profits for the region: Chinese goods are exchanged for Central Asian raw materials and energy resources, which undermines the barely recovered Central Asian light and heavy industries and dooms the region to the role of a raw material appendage. No wonder Russia and the other SCO members declined the Chinese idea of a regional “free trade zone” Chinese Premier Wen Jiabao put on the table at the 23 September, 2003 SCO summit. The Chinese leaders were seeking broader trade in commodities and services with gradually diminishing trade limitations and tariffs in the long-term perspective. In the summer of 2006, the project resurfaced with an implementation term of 20 years. At the same time, Beijing convinced Astana that the two countries would profit from bilateral local free trade zones on the border; on 25 September, 2006, the Kyrgyzstan government passed a decision on a free trade zone with China.

Ideologically, the idea of free trade zones stems from the thesis of arranging the branches together with the roots. The security threats and risks (terrorism, Islamic extremism, and separatism) are described as branches, while socioeconomic relations are seen as roots. When describing a project as a tree, the Chinese are saying that it is strong not because it has a broad crown and long branches, but because its roots go deep enough. As applied to the SCO, the symbol means that the roots should receive more attention in the form of socioeconomic and transportation projects. It should be said here that if the “roots” remain mainly Chinese, the tree will become more Chinese than Russian-Kazakhstani, or any other, with time.

The next SCO summit, which will be held on 16 August, 2007 in Bishkek, will discuss mainly economic (transport and energy) projects. Much will be said about the railway between Andijan (Uzbekistan), Torugart (Kyrgyzstan), and Kashgar (China), which will connect Asia with Western Europe. It will extend the Chinese railway project Kashgar-Artush-Aksuu-Korla, which connected China’s eastern ports with its western inland regions. Kyrgyzstan will gain access to the Pacific ports and Europe; there is the opinion in the expert community that the new railway, which is shorter than the Trans-Siberian Main Line, might deprive the latter of some of its business.¹

So far the prospects for Oriental (Chinese) integration in Eurasia (Central Asia included) are unclear. Risks apart, the key projects (EurAsEC, CSTO, and SCO) remain fairly profitable. The main thing (particularly in the case of the SCO) is to continue rational and cautious use of the huge and rapidly increasing Chinese resources in the interests of integration and cooperation. The SCO is underpinned by Beijing’s and Moscow’s shared ideological considerations. It is no secret that the project is moving toward an undeclared doctrine of “containment” of the United States and its allies. In a certain sense it can be described as a new version of the post-bipolar world. It was launched in Eurasia and is manifesting itself in a latent confrontation between the SCO, CSTO, and EurAsEC, on the one side, and the projects of NATO, revived GUAM, the “Democratic Axis” of the Baltic states-Ukraine-Poland-Georgia, and other projects alternative to Russia and China, on the other.

Russia and Central Asia are obviously unable to escape China—they are doomed to befriend it. The context permits two alternatives: first, integration of Central Asia around the Russia-Kazakhstan axis within the wider developed EurAsEC and CSTO projects. Second, integration around the China-Kazakhstan axis, a wider SCO or modified Chinese projects. The latter looks like part of a broader Eurasian strategy to be realized in the mid-term or even more distant perspective. It will hardly fully fit Russia’s national interests in the security sphere.

China’s Bilateral Priorities

Kazakhstan and relations with it in trade, investment, and energy resources (their export to Kazakhstan) is high on the list of China’s bilateral priorities (the pipeline opened between Kazakh-

¹ See: K. Mamatov, “The Eastern Threat,” *Moscow News*, 2 March, 2007.

stan and Western China in December 2005 is the best proof of this). On 20 December, 2006, President of Kazakhstan Nursultan Nazarbaev paid an official visit to China, which produced 13 agreements, the key ones being Cooperation Strategy in the 21st Century and Conception of Economic Cooperation between Kazakhstan and China. Foreign Minister of Kazakhstan Kasymzhomart Tokaev pointed out that the former disclosed the meaning of bilateral cooperation for a long time to come in all spheres and outlined specific projects.² According to Chinese official statistics, in 2006 the volume of trade between the two countries reached \$8.3 billion, and investments \$1.3 billion.³ This was a qualitative shift: cooperation between the two countries became systemic and moved to a level comparable with the "large" Eurasian powers (India and Russia). To be honest, the Kazakhstani media coverage, which was positive on the whole, showed President Nazarbaev's concern over "China's disproportional involvement in developing Kazakhstan's oil and gas resources." A very apt remark indeed: China has made its appearance in the republic's fuel and energy complex and intends to stay.

On 10 January, 2007, Vice-Premier of Kazakhstan Karim Masimov was appointed prime minister. This added fresh impetus to bilateral relations: the newly appointed premier is an expert in the Chinese economic reforms, which he is prepared to promote in Kazakhstan. He is an active supporter of closer strategic relations with the eastern neighbor. This explains why free trade zones appeared on the Chinese-Kazakhstani border in 2006.

Energy and security are in the center of relations between China and **Uzbekistan**. China is concentrating on the energy sector and security; it supports President Karimov's government in its efforts to deal with the multiplying Islamic challenges. Their bilateral trade was estimated at \$972 million in 2006.⁴

The relations between China and **Turkmenistan** are based on the prospect of commissioning new gas pipelines in 2009 between the two countries and developing energy cooperation. The accents in the relations between the two countries changed in December 2006 when Saparmurat Niyazov died and the country acquired a new president, Gurbanguly Berdimukhammedov, in February 2007. At first, Beijing was naturally concerned about the possible political destabilization in Ashgabad, or the new president's changed ideas about the country's traditional neutrality in favor of the West and/or Russia, which might have upset the fairly stable bilateral relations with China. Second, these developments forced China to accelerate the preparatory work on the gas projects and planned import of Turkmenian gas to China. Trade between the two countries is not impressive: in 2006, it was merely \$178 million.⁵

The economic gap between the region's leaders and outsiders is widening. Today Kazakhstan has emerged as an unquestioned leader; the country's solid economic base allows its president to consistently shoulder political responsibility for the regional developments. Nothing is said about it on the official level, but everyone knows who runs the show in Central Asia. Beijing is actively exploiting differentiation to build up corresponding bilateral economic policies with each of the poles. The Chinese-Kazakhstani model is a version of oil-and-gas cooperation and dynamic trade relations. As for Kyrgyzstan and Tajikistan, Beijing uses individual patterns. The general idea is well known: China is seeking energy imports (hydro resources and power) and markets for its textiles and other goods. **Kyrgyzstan** is a priority where bilateral trade is concerned: in 2005-2006, it received several trade (tied) credits, which raised the volume of bilateral trade to \$2.2 billion in 2006 (an increase of 120 percent) by means of Chinese exported consumer goods, products of the textile industry, elec-

² See: K. Tokaev's press conference of 21 December, 2006 [www.kazpress.com].

³ See: *Haiguan Tungzi*, Beijing, No. 12, 2006.

⁴ *Ibidem*.

⁵ *Ibidem*.

tronic consumer goods, etc. The establishment of a free trade zone between China and Kyrgyzstan speeded up the trade turnover. The **Tajik** leaders declined similar offers. On the other hand, China was less interested in their country as a consumer market, the geographic location of which leaves much to be desired. In 2006, the volume of Chinese-Tajik trade was no higher than \$323 million.⁶ Local Central Asian (particularly Kazakhstani and Kyrgyz) industry is collapsing under the impact of cheap Chinese goods. In fact, in the short-term perspective Chinese imports will develop into a serious challenge and threat for the local economy. The process should be regulated and put into the framework of administrative-economic procedures at the bilateral and collective level within the SCO, EurAsEC, and other organizations.

Russia does not want to see the region divided into the rich and the poor; by pouring money into the EurAsEC and other projects, it is trying to make the Central Asian space more homogenous. The differentiation process, however, is going on all by itself.

The SCO Energy Factor. The Eurasian Component

The SCO Energy Club project offers more balanced relations between China and Russia and harmonization of their interests in Eurasia. The growing energy resource deficit is the Achilles' heel of the Chinese economy. For this reason cooperation between Russia, Central Asia, and China could offer good prospects for all SCO members and Turkmenistan, which is not its member. It will also add weight to the energy resource suppliers—Russia, Kazakhstan, and Uzbekistan.

Today, the EC's main outlines can be described in the following way. Late in 2006, President Putin voiced the idea of the SCO Energy Club, which India, an observer country, found highly attractive. On the whole, we can speak of the conception's four regional dimensions:

- (a) global;
- (b) regional-Eurasian (Russia, China, and four Central Asian states);
- (c) sub-regional Central Asian (Kazakhstan, Tajikistan, Uzbekistan, and Kyrgyzstan), and
- (d) national (six national energy models of the SCO members).

It seems that today the regional-Eurasian dimension is being discussed. The global format is still far away, even though its elements can be discerned in Russia's energy policy designed to realize the energy security conception (decisions of the St. Petersburg G-8 summit) in the very difficult dialog between Russia and the EU on the Energy Charter, etc. At each of the levels, the SCO Energy Club conception can be adjusted to specific geopolitical and energy trends and regularities. If realized in its regional dimensions, the Energy Club conception will not only create a self-sufficient energy structure: producer-supplier-consumer in Eurasia, but will also considerably renew the SCO's general development strategy and supply it with new instruments of influence in the traditional security, economic, and humanitarian spheres of cooperation. The role of the energy component is not overstated—this is a mere statement of the facts of life.

There is another methodological approach. The project can be arranged as a club in which wide and fairly transparent cooperation is not limited to the SCO members (states and corresponding ministries). It could include the observer states as well as a large number of non-state entities (private energy

⁶ Ibidem.

companies, etc.). In another alternative, the project could involve members outside the SCO; these contacts would be non-political and add flexibility to the Energy Club: gas-rich Turkmenistan, oil-and-gas rich Azerbaijan, etc. could also be invited. This approach could open the road (at least theoretically) to talks and cooperation with GUAM and other organizations.

The regional and sub-regional formats can be interpreted in the same or similar context as the implementation of the SCO energy policy in the Eurasian expanse of four Central Asian states (Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan) plus Russia and China. The project permits wider territorial realization of its conception, which will involve the observer states—Iran, India, Pakistan, and Mongolia. President Nazarbaev's idea about a future Asian energy market and the initiative of Iranian President Mahmoud Ahmadinejad, who invited the SCO energy ministers to meet in his country to look into the regional potential of developing, extracting, transporting, and refining oil and gas, extend the limits and widen the Energy Club possibilities. However today the matter mainly concerns energy interaction among the SCO member states. The idea of blending the Energy Club project (Russia) and the Asian Energy Market (Kazakhstan) also looks promising; the latter appears to be a wider philosophy of energy cooperation in Eurasia, which may develop parallel to the Energy Club project or make it its part. There are no contradictions between them: both approaches may serve as a pattern for a certain Eurasian Energy Charter similar to the well-known European document.

By way of summing up the article's theoretical part, I would like to say that the Energy Club should not do what the national energy ministries and departments of the six countries are doing. The Energy Club should rely on the SCO and its structures; it should invite the business community to cooperate and draw on the intellectual resources of the expert community.

The SCO energy expanse is taking shape on a very solid political basis, which includes five key elements:

1. Many Eastern countries, which would prefer a multipolar to unipolar world, find the SCO attractive, mainly because of the Chinese resource. The organization's international rating is rising; hundreds of respected international organizations have already established or plan to establish cooperation with the SCO. The 2006 Shanghai summit introduced a moratorium on the organization's expansion; its leaders preferred to stem expansion for the sake of adjusting what has been achieved politically and economically.
2. The SCO left one important stage behind: the stage of regional (Central Asian) activity of 1996-2004, when the West tended to dismiss it as unimportant. In 2004, it entered the second stage, which has not yet acquired its final shape. This is the stage of global geopolitical activity. SCO globalism is underpinned by Russian-Chinese strategic partnership, which extends to the entire organization.
3. Today, Moscow and Beijing regard the SCO as more of an economic structure; the mechanism of economic cooperation has made the entire organization multidimensional. There is a humanitarian dimension and also a second track—the SCO Forum, the SCO Business Council, etc. The preparations for the Bishkek Forum to be held on 16 August, 2007 allows us to talk about the organization's further commercialization and two priority trends—transport and energy.
4. The SCO structure can be divided very provisionally into 3 + 3 economic groups (all decisions require consensus among the six members): (China, Russia, Kazakhstan) + (Uzbekistan, Kyrgyzstan, and Tajikistan). This should not be taken to mean that there are countries of the first and second order. This is an informal admission that their economic potential, GDP volumes, trade structures, etc. are very different.

5. Further expansion that will make the observer countries (Iran, India, Pakistan, Mongolia) SCO members is strategically undesirable: (1) in the case of India and Pakistan—the Kashmir conflict and nuclear non-proliferation regime; (2) in the case of Iran—its nuclear program and the resultant crisis. Mongolia is the only country that could become a full member: its membership will strengthen two traditional trends of Mongolian politics (Russia and China) and would not interfere with the latest, pro-Western vector. The latest trend, however, could impose certain limits on the country. At the same time, advantages are obvious: the SCO will help to develop its economic, investment, and energy resources. For objective reasons, the CSTO, EurAsEC, and SCO could draw somewhat closer together, but complete organizational merging is hardly possible even in distant future. Russia and China, acting together within the SCO, offered Central Asia their agenda of security, development, and modernization. Being free from artificial (read: Western) standards of democratization, the organization looks attractive: it allows the countries that have fallen behind (Tajikistan and Kyrgyzstan) to use the resources of their more developed neighbors (China, Russia, and Kazakhstan) to speed up their economic development.

The following describes the specifics and potential of the SCO energy expanse:

1. No third countries on the energy transportation routes.
2. A natural (geo-economic) combination of groups of countries that produce and export energy (Russia, Kazakhstan, Uzbekistan) and that import and use energy (China, Kyrgyzstan, Tajikistan). This combination embracing the observer countries can be interpreted in a wider format, as an “axis” of producers (Russia, Kazakhstan, Uzbekistan, and Iran) and an “axis” of energy consumers (China, Tajikistan, Kyrgyzstan, India, Pakistan, and Mongolia). The implemented former and even more so latter model, which includes the observers, makes the SCO a self-sufficient global and regional system. There is also an “axis” of transporter countries. Their cooperation in the gas, oil, atomic, and electric power spheres will move the united tariff and price policy to the fore (based on the world market prices and long-term agreements), agreements on routes and on the volumes of sold and bought energy resources. As distinct from OPEC, the SCO Energy Club will include producers, transporter countries, and consumers of energy resources; all of them will have a chance to tap the Energy Club’s advantages at the very early stage of its functioning.
3. The SCO energy project can be coupled with integration projects—a Free Trade Zone (FTZ). For several objective reasons, the energy project can develop faster than the integration project merely because the suppliers and consumers of energy resources are more interested in cooperation in this sphere. The SCO FTZ has several limits—the smaller and weaker economies (Tajikistan and Kyrgyzstan) are not prepared to work with China under free trade conditions. The SCO FTZ is a prospective rather than immediate goal.
4. The SCO Energy Club may regulate the inner Central Asian energy discrepancies between Uzbekistan and Tajikistan and Uzbekistan and Kyrgyzstan by playing down or removing altogether the bilateral problems in exchanging Uzbek gas for Kyrgyzstan and Tajikistan’s water resources. The Russian Federation, Kazakhstan, and Uzbekistan are rich in hydrocarbons, while Tajikistan and Kyrgyzstan possess vast water resources. The water consortiums initiated by the Central Asian countries and EurAsEC have failed to defuse the tension between Uzbekistan and the two water-rich countries. Potentially, the SCO Energy Club can solve the problem.

Objectively, the highly different economic scales of the SCO members make it hard to implement the EC; it will not be easy to completely harmonize the national economic strategies and the interests of the energy producers and consumers. Producers and consumers are natural rivals—this is a fact of life. For example, there is latent rivalry between Russia and Kazakhstan and Iran for the oil and gas markets, etc. The same is true of the large energy importers (China and India). They are competing for the sources, routes, and volumes of imported fuel. This rivalry can be harmonized within the Energy Club. The huge Chinese market can use all the oil and gas offered by Russia, Kazakhstan, and Iran, especially if the process is institutionalized within the Energy Club.

Facing the Afghan Challenges

Today the Taliban has grown more dangerous: all kinds of groups and tribes are closing their ranks under the banners of “pure” Islam. A wide, mainly Pashtoon, anti-American movement is taking shape. Under certain conditions, the anti-Americanism of the Taliban may develop into anti-Russian policies, especially if the movement tends to expand up north. The Taliban has already mastered the suicide bomber tactics; today it has about 5,000 suicide bombers in its ranks ready to die in any corner of the world. The attempt on the life of Vice-President Richard Cheney on 27 February, 2007 in Kabul was the first step in this direction. Drug trafficking and the drug-oriented economy are generating enough money to restore the military resources and recruit suicide bombers. The planned spring and summer 2007 attack by 15,000-17,000 fighters on Kandahar was probably suggested by America’s repeated failures in Iraq.⁷

The Chinese position is fairly contradictory: on the one hand, China is not overjoyed to see the Taliban’s revival. It presents a real threat to the Chinese Muslim (XUAR) and border regions. On the other, Beijing does not want American bases back in the region (Uzbekistan) or new ones to be set up on the borders or stationed dangerously close to China (in Tajikistan and Turkmenistan). In fact, the Uzbek leader earned China’s respect as the most trusted strategic partner when he insisted on liquidating the American base in Khanabad in 2005. It seems that if Kurmanbek Bakiev, the current president of Kyrgyzstan, followed in the steps of his Uzbek colleague, he could have expected additional economic and political preferences from China.

So far the SCO has chosen the wait-and-see policy. More than that: there is the opinion that back in 2005, the Taliban launched its offensive in the south of Afghanistan when the SCO Secretariat demanded that the United States set the dates for withdrawing its troops from Central Asia. It is said that the Taliban allegedly interpreted this as unexpected and welcome support. It was nothing more than a coincidence, but the problem of coordinating the strategic and tactical interests of Russia, the U.S., and China on the “Taliban Front” is a contradictory one that defies simple solutions. Raised tension will bring the CSTO and NATO closer; today they are working together to defend the Central Asian borders. It looks as if the Russian-Chinese Peace Mission-2007 exercises are partly connected with the Taliban scenario as well.

⁷ See: [www.afghanistan.ru], 27 February, 2007.

INVESTMENT ACTIVITY OF COMMERCIAL BANKS IN KAZAKHSTAN: TRENDS, PROBLEMS, AND PROSPECTS

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International intergovernmental organizations and developed countries recognize the Kazakhstan economy as the most dynamically developing in the post-Soviet expanse. Kazakhstan is the first CIS state to be endowed with the status of a market-economy country by the U.S. and European Union.

Development of the Kazakhstan economy in recent years has been promoted by the stabilization on the world financial markets and the favorable price situation on the commodity markets, which stimulated and then led to the rapid growth of the global economy. The upswing in the world economy increased the demand for primary products and had a favorable effect on the economy of developing countries. Beginning in 2000, the country's economic development has been moving forward in leaps and bounds. The average annual rate of Kazakhstan's GDP increment for 2000-2006 was more than 10%, and the GDP in nominal terms and in the dollar equivalent increased approximately three-fold during this period.¹

The high prices for Kazakhstani export goods, primarily for energy resources and metals, was the main factor in economic growth. The annual rise in the price of oil, followed by that of other primary products, was particularly conducive to boosting the domestic economy. At the same time, the export volumes also rose, which in general ensured a significant annual increase in profit for exporters and the inflow of freely convertible currency revenue into the country. The development of the export branches pulled the rest of the economy along with them. Growth of the domestic economy is

¹ See: Statistical Bulletin of the National Bank 2006, No. 12, available at [www.nationalbank.kz], 1 February, 2007.

promoted by the strong tax policy, stable budget balance, rational exchange policy, and increase in real personal incomes.

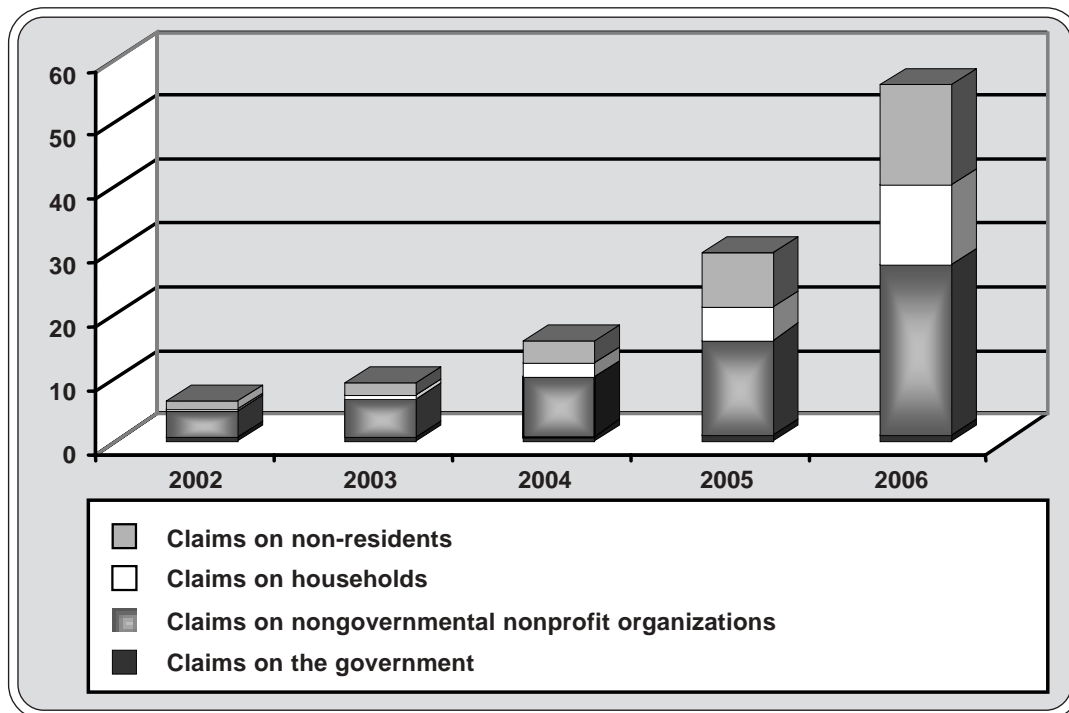
Strengthening of the stabilization trends designated in 2000 was reflected in the increase in the main macroeconomic indices: the GDP, output of industrial and agricultural production, retail goods turnover, freight shipment, fixed capital investments, and foreign trade turnover. The country's financial position also stabilized. The fact that during these years, the republican budget had either a net surplus, or a small deficit is sufficient proof of this. A rather moderate level of inflation and a relatively steady national currency exchange rate to the dollar were maintained, while the National Bank's gold and currency reserves and Kazakhstan's international reserves rose.

Positive macroeconomic conditions and the measures taken to reform the banking system helped to raise the trust in domestic banks both inside the country and among foreign investors. As a result, in recent years, the growth rate of the banking sector indices has been several times higher than the dynamics of economic growth. This made it possible to significantly raise the functional potential of the country's banking system. According to the results of 2006, the Kazakhstan GDP volume amounted to 77 billion dollars. The total assets of commercial banks with respect to the GDP rose to 91.1% and the ratio of estimated equity capital to the GDP reached 12%.

In the past five years, the volume of investments of Kazakhstan's commercial banks increased annually on an average of 60%, whereby the greatest increase of 99%, despite the growing basis of comparison, was noted precisely in 2006. The main recipients of banking investments were nongovernmental nonprofit organizations—43%, non-residents—26%, and households—20%. In absolute terms, the banking investment volumes were distributed in the following ratio: 26.8-15.7-12.4 billion dollars, respectively (Fig. 1).

Figure 1

Performance of Bank's Claims on Economic Entities (billion dollars)



The performance of claims on non-residents for 2002 to 2006 was characterized by a tenfold increase in banking investment volumes. The greatest growth was noted in 2005, when non-resident liabilities more than doubled. Nevertheless, it should also be noted that since the beginning of 2006, this growth has been on the downward trend.

Bank lending (46%) and the purchasing of non-resident companies' debt securities (29%) are the main ways Kazakhstani banks carry out investment on the foreign markets. In terms of regions, most loans are concentrated in the Russian Federation (40%), which is causing the high level of country risk for banks. Russia's dominant position with respect to non-resident lending is due to the close trade and economic interrelations between the two states. In turn, the level of country risk is minimized by Russia's higher sovereignty rating. What is more, the percentage of such loans in the total volume of the loan portfolio amounts to approximately 4%, which indicates that Kazakhstan's banking system is in the position to counteract any possible crisis phenomena in Russia.²

S&P Agency analysts also agree that there are additional risks related to the expansion of Kazakhstani banks on the foreign markets. The fact that these foreign markets are distinguished by a higher level of risks, economic, political and structural, than Kazakhstan is putting the analysts on their guard. They believe that the shrinking interest margin on the domestic market, primarily for loans to corporate clients, is prompting banks to seek customers on foreign markets. In addition, this allows Kazakhstani banks to put their business advantages (accumulated experience, attractive products) into play on more dynamically developing markets closer to Europe and, finally, to achieve the economies of scale. But despite the cultural ties with these markets, Kazakhstani banks do not have enough understanding of the local realities and working conditions, and, what is more, they do not have the political ties, which are absolutely necessary in these countries where business is often built on personal contacts.³

Despite the absolute growth, the claims on nongovernmental nonprofit organizations gradually decreased between 2002 and 2006 in the overall structure of banking claims on economic entities. For example, whereas at the beginning of the period under review, their share amounted to 68%, by the end of 2006, it fell to 25 percentage points. Claims on economic entities were largely represented by the loans issued—98%. Investment by purchasing securities amounted to less than 0.1% of the total amount of claims on nongovernmental nonprofit organizations.

The low level of investment using stock market instruments was due to the low issuing activity of entities in the non-financial sector. Despite the high growth indices in the volume of stock market trading noted in recent years, the nongovernmental securities sector is still extremely weak. Trading volume in this sector in 2005 amounted to 2.8 billion dollars, or 3.4% of the total trading volume. The financial sector held the leading position in the branch structure of the Stock Exchange Official List of bonds in 2005. The share of this sector amounted to more than 90% of the market debt value, while the oil and gas complex accounted for only 3.3%, and the other sectors for 5%. The branch structure of the official listing of shares in 2005 did not undergo any serious changes. Here, as before, the financial sector and oil and gas companies are the leaders. Their share in stock market capitalization amounted to 43% and 24.8%, respectively. The position of other branches of the economy on the Stock Exchange Official List has undergone little change and remains insignificant.⁴

Improvement of the population's welfare, which is characterized by an increase in average salaries, prompted an increase in the demand for credit resources on the part of households. Streamlining

² See: Report on Kazakhstan's Financial Stability, December 2006, available at [www.nationalbank.kz], 1 February, 2007.

³ See: Analysis of Risks in the Banking Sector of the Republic of Kazakhstan, available at [www.creditrussia.ru], 1 June, 2006.

⁴ See: KASE Report for 2005, available at [www.kase.kz], 1 February, 2007.

personal services and introducing new banking products for physical entities rapidly boosted the development of this type of credit activity. For example, in 2006 alone, the population took out twice as many loans and their share in the loan portfolio of commercial banks continues to increase. For the entire period between 2002 and 2006, banks' claims on households increased more than 30-fold in the dollar equivalent.

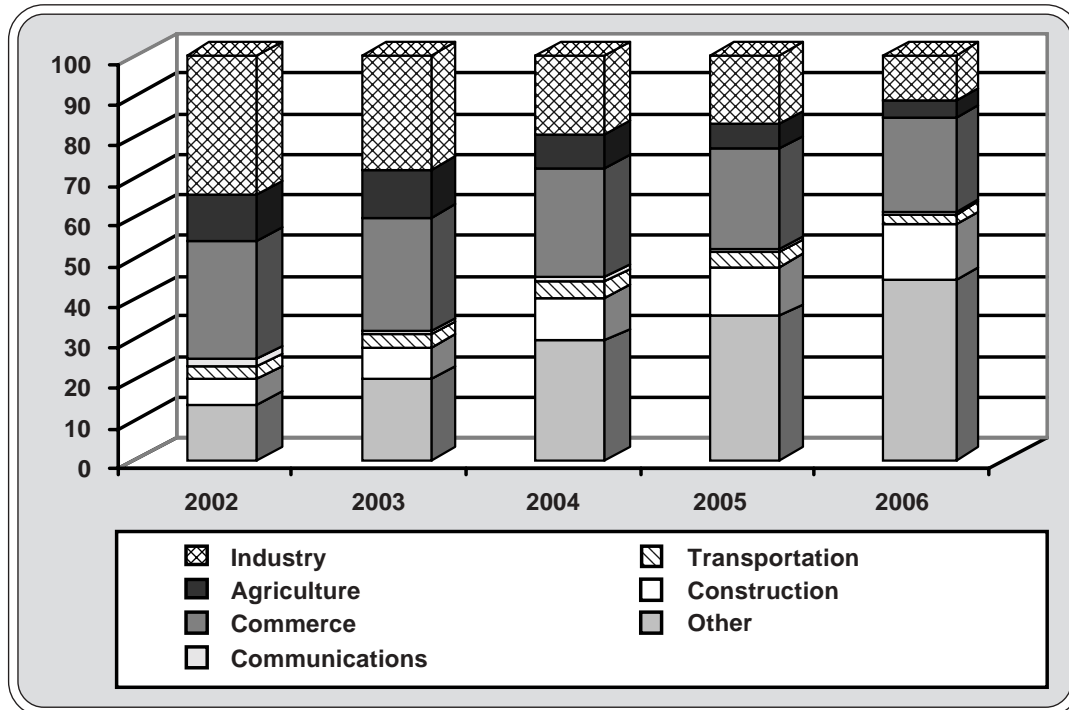
The high share of loans in the investment portfolio of second-tier banks calls for a more detailed analysis of the loan portfolio as a form of investment activity of commercial banks during earlier periods.

Positive changes have occurred in the loan portfolio composition with respect to time-limits. Against the background of the total increase in lending in the real sector of the economy, an accelerated increase in long-term loans is noted, the share of which increased to 73% and amounted to 37.6 billion dollars in 2006. On the whole, between 2002 and 2006, the amount of debt on long-term loans increased more than 1.5-fold annually. The share of short-term loans decreased compared with 2002 to 15.7 percentage points and amounted to 10.2 billion dollars at the end of 2006. More long-term loans are being taken out because commercial banks are extending the time-limits of funding.

An analysis of the loan portfolio of second-tier banks in terms of types of currency shows that the trend toward a decrease in the number of foreign currency loans designated since 2001 is continuing. As a result, the share of loans issued in the national currency (tenge) increased to 52% by the end of 2006. The decrease in the percentage of foreign currency loans was due to the steady strengthening of the tenge. Nevertheless, it should be noted that long-term foreign currency loans (34.1%) occupy the largest percent in the loan portfolio composition in terms of time-limits and types of currency, although the percentage of long-term loans in the national currency is gradually

Figure 2

Composition of the Loan Portfolio of Banks by Sector (%)



increasing (29%). The current loan portfolio composition is most likely related to the resource base of commercial banks, which in recent years has been steadily growing due to the long-term loans of foreign investors.

In terms of branches of the economy, the banking statistics show that in absolute terms bank lending has been on the steady rise in recent years. An analysis of the relative indices between 2002 and 2006 shows a decrease in the percentage of credit resources used to finance production enterprises, apart from construction companies, as well as a decrease in the percentage of lending in the communications, transportation, and trade spheres. Other industries account for almost half of the loan portfolio of banks (Fig. 2).

In the past five years alone, the percentage of lending in industry has fallen from 34% to 11%, including to 6.7% in the processing industry, and to 3.6% in the mining industry. Of the total volume of loans issued to finance the needs of the processing industry, which amounts to 2.5 billion dollars, a little more than 40% comprises loans to enterprises engaged in the production of foodstuffs, 12% to enterprises of the metallurgical industry, and 8% to enterprises manufacturing non-metal mineral products. The drop in loan to the production sector is largely explained not so much by the unwillingness of domestic banks to finance the enterprises of this industry, as by the desire of the latter, when necessary (the profitability of mining enterprises in Kazakhstan amounts on average to 70-90%), to use the resources provided by parent companies or acquired on the international capital markets.

By the end of 2006, lending to agricultural producers amounted to 4.4% of the total volume of loans issued, but this figure is 7 percentage points lower than the 2002 level.

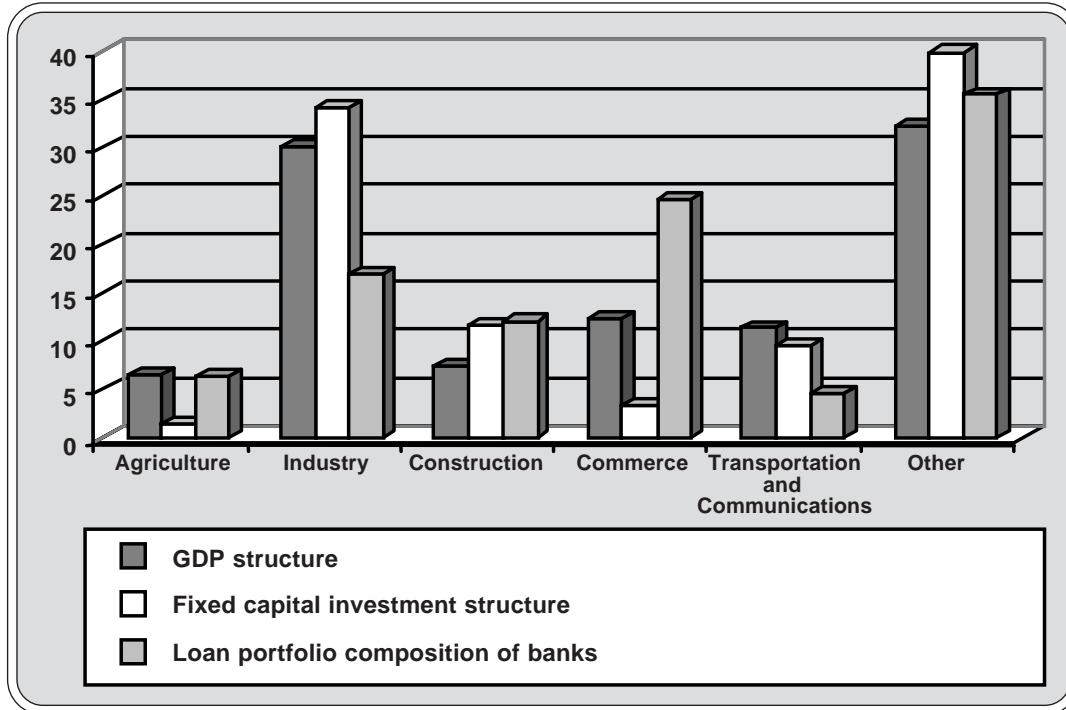
The increase in loans to the construction industry promoted the drop in lending in the production sphere. Beginning in 2001, the annual increase in bank financing of construction companies surpassed the growth rates in the total volume of the loan portfolio. As a result, the percentage of construction steadily rose and reached 13.9% by the end of 2006. Such high dynamics are explained by the development of housing construction in Kazakhstan, the steady increase in real estate prices, and the ongoing construction in the country's new capital.

Despite a certain downward trend, lending in spheres of activity ensuring a rapid cost recovery and return on investment, such as trade and marketing and financial commercial activity, continues to be preferable. According to the results of 2006, the share of this lending in the total volume of economic loans amounted to 23.3%.

In this way, despite the increase in the role of bank financing, the emphasis is being placed more on satisfying the needs of enterprises in the non-production sphere than on making investments in industry. In Kazakhstan, significant disproportions are noted in the logical chain of economic links in the loan portfolio composition of commercial banks, the amount of fixed capital investment, and the amount of GDP produced, which are manifested in the domination of non-production branches (commerce, real estate operations). At the same time, the investment activity of banks and other groups of investors is gradually being curtailed in industrial production, which is traditionally the main driving force of development of the Kazakhstani economy. It should be noted that this is happening during implementation of a strategy of industrial-innovative development in the country, which envisages "diversification and modernization of the economy and the creation of conditions for producing competitive commodities and increasing export." In so doing, commercial banks, which have the largest volume of financial resources, are seen as the largest institutional investors in this strategy. Figure 3 presents the loan portfolio composition of banks in terms of branch characteristics, the structure of fixed capital investment, in keeping with the types of economic activity, and the GDP of the country, in terms of branches of the economy, that have developed in Kazakhstan, according to the results of 2005.

Figure 3

Loan Portfolio Composition, Structure of Investments and the GDP in 2005 (%)



Keeping in mind the composition of bank loans in terms of lending targets, the following picture takes shape. At first glance, it can be said that lending to corporate business (Fig. 4) accounts for approximately 50% of all the loans issued by commercial banks to the economy.

Most bank loans are used by borrowers for supplementing their circulating capital. But a downward trend was noted between 2002 and 2006. At the end of the period under review, loans for this purpose amounted to 12.6 billion dollars or 33.4% of the total amount of loans, compared with 66.3% at the end of 2002.

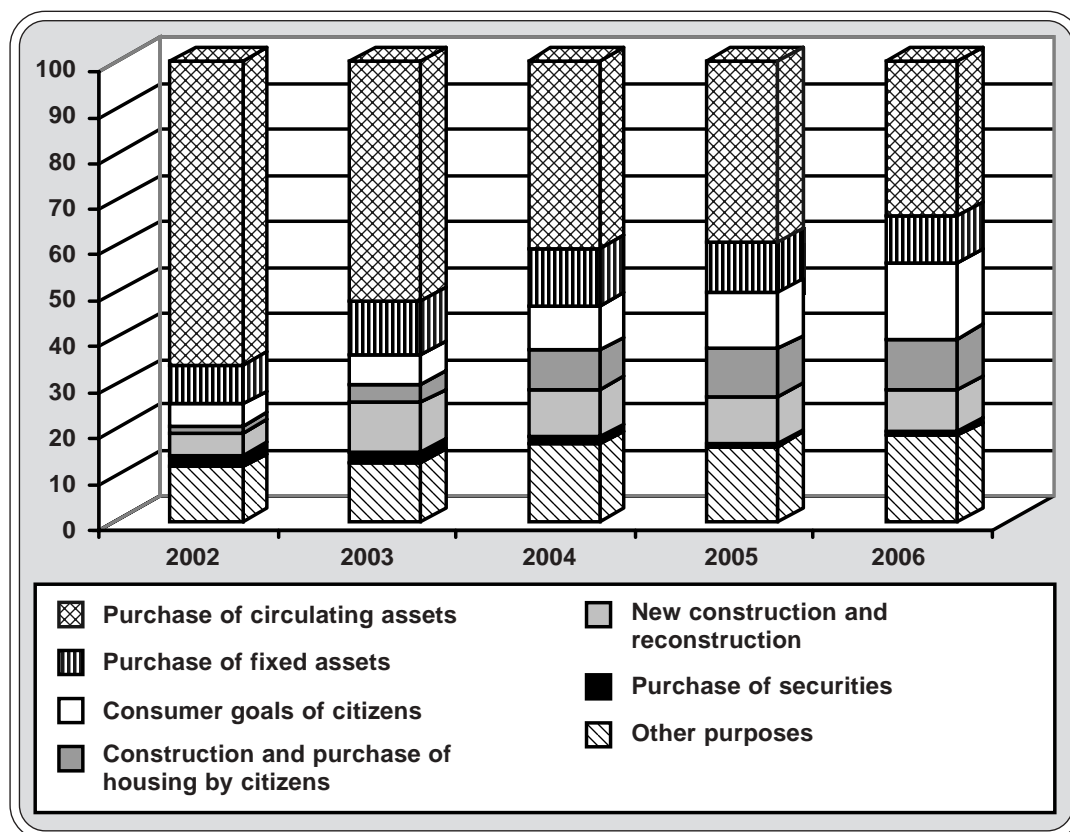
The structural changes in the loan debt of borrowers due to the purchase of fixed assets are characterized by a certain amount of growth in 2002 and 2004, but beginning in 2005, their volume began to decrease, and by the end of 2006 dropped to 10.3%. In absolute terms, the amount of loan debt of borrowers for the purpose of renewing and enlarging fixed assets increased almost 10-fold in five years and amounted to 3.9 billion dollars.

New construction and reconstruction are the next target of banking loans and present one of the types of capital-forming investments for economic entities. The development of the construction industry promoted an increase in the volume of loans issued for these purposes. However, beginning in 2003, a steady trend was noted toward a decrease in the percentage of loans for facilities under construction from 10.9% to 9.2% at the end of 2006.

The structural changes that occurred in the portfolio of commercial banks with respect to lending to the population should be noted. Consumer loan balances, which in world practice are assessed as the most risky, increased over the past five years from 0.1 to 6.2 billion dollars. Under conditions when access to credit resources is easier and express loan volumes without collateral are on the rise, this makes banks more susceptible to credit risks.

Figure 4

Loan Portfolio Composition of Banks in Terms of Lending Targets (%)



The increase in loans issued to the population is also related to the increase in lending for construction and the purchase of housing. The volume of mortgage loans issued to citizens doubled on average every year between 2002 and 2006. At the end of 2006, the percentage of loans issued for the construction and purchase of housing by citizens increased to 11.2%. In absolute terms, the lending volume reached 4.2 billion dollars, compared to 0.1 billion dollars in 2002.

When lending dynamically increases, the loan portfolio quality is affected and becomes more vulnerable to risks. At present, banks have reduced some of their claims on potential borrowers in order to more efficiently float the attracted funds. According to the regulating bodies, the main risk factors for banks related to lending to the population are general economic upheavals capable of leading to a decrease in the population's payment solvency, a drop in retail prices, and fluctuations in the currency exchange rates. As for the corporate sector, the risks here are primarily related to the high percentage of loans issued to branches of the economy where enterprises, in the event of a drop in the level of business activity, are more mobile, which could lead to an increase in bankruptcy and deterioration in the loan portfolio quality.⁵ What is more, banking risks are also augmented by several unsolved problems with respect to the lack of transparency of the property structure of Kazakhstan business. These particularly relate to the risk of banks providing less information than necessary on the amount of lending by the sides involved.

⁵ See: Report on Kazakhstan's Financial Stability, December 2006.

In world practice, the main analytical index reflecting the amount of economic risk is the hypothetical level of gross problem assets (GPS) in the financial system within the framework a realistic (but not catastrophic) scenario of economic recession. Problem assets include overdue loans, restructured assets (with a change in primary loan conditions), realized real estate mortgage, and other assets levied for the return of loan debts, as well as problem assets transferred to the management of special legal entities. The amount of GPS also reflects the level of outlays and problem assets that arose in this banking system previously. Taking into account the loan risks indicated above, S&P believes that in the event of an economic recession in Kazakhstan, the GSP level could amount to 35-50%.⁶

In Kazakhstan's banking practice, the level of banking risks is usually determined according to the size of the index characterizing the level of bad debts in the total volume of the loan portfolio of second-tier banks. This index was reduced to 1.6% at the end of 2006, which, according to the regulatory bodies, shows "the absence of alarming signals of the emergence of a systemic crisis at this stage of development."⁷ However, this assessment of the level of loan risks in the banking sector seems rather optimistic to us. This is primarily due to the structural changes in the loan portfolio quality. For example, whereas in 2002, the percentage of standard loans amounted to 71.6%, at the end of 2006, it had dropped to 52.6%. Correspondingly, the share of bad debts increased from 26.4% to 45.8%. It is particularly disquieting that such negative dynamics are being seen at a time of high growth in the volume of loans issued and a favorable macroeconomic situation.

The loan portfolio quality is only likely to deteriorate in the future. Credit risk remains the weakest point in the Kazakhstan banking system and one of the main factors making the prospects for its development indefinite. The situation could worsen in the very near future due to the fact that in April of this year the demands were toughened on the amount of foreign borrowing, which is to be limited to the amount of the banks' equity capital. According to the country's Central Bank, the banking sector's foreign liabilities at the end of 2006 amounted to 29.7 billion dollars, with an estimated equity capital of 9.3 billion dollars. The slowdown in the growth of the resource base of commercial banks is also having an influence on the decrease in volume of loans being issued, which in the end will reflect on the loan portfolio quality.

Problems in the future could also be aggravated if there is an abrupt slowdown in the growth dynamics of the economy. As a result of the reduction in revenue, the ability of borrowers to repay the loans they take out will also decrease. Taking into account the high dependence of the Kazakhstan economy on the fluctuations in the foreign situation, this possibility can simply not be excluded.

The changes in the branch structure and loan portfolio quality are making it necessary to review the investment policy of commercial banks and further improve the system of risk management. In the near future, the main task will be not building up the volumes of banking investments in the economy in absolute terms, but reorienting them from commerce and real estate to the manufacturing industry, transportation, and agriculture.

This is necessary in order to reduce the volumes of consumer lending, as well as lending in branches that ensure rapid cost recovery as a factor of launching inflation processes in the country, which happened last year. What is more, today, when banks are actively using the long money of foreign creditors to form their resource base, they are indeed capable of acting as investors, if not of long-term, at least of medium-term investment projects. And finally, it is not worth forgetting the industrial-innovative development strategy mentioned above, which is to be implemented before 2015, and the role allotted to the banking sector.

Nor should we believe that the volumes and vectors of banking investments in particular branches of the national economy are determined exclusively by the banks' own policy. The transformation

⁶ See: Analysis of Risks in the Banking Sector of the Republic of Kazakhstan.

⁷ See: Report on Kazakhstan's Financial Stability, December 2006.

mechanism (bank capital \Rightarrow investment in the economy) depends not only on the side supplying the investment capital, but also on the side requesting it. Unfortunately, today most enterprises of the real sector are simply not ready to accept large-scale investments on the conditions that are customary for all market economies today (the lender-investor demands financial transparency of the borrower and efficient assimilation of the corresponding funds). So the current situation is unlikely to change without the state's active participation in regulating the investment activity of commercial banks.

In so doing, it should be noted that state regulation is being urged not to cancel the principles and mechanisms of market management, or replace them with directive management, but to promote the creation of favorable conditions for stepping up the activity of all the participants in the investment process. So the state's task at the current stage of development of the macrosystem is to unite the advantages of state and market regulation. Market self-regulation of the investment process should be supplemented with different forms of government participation in those situations where the market cannot ensure optimal distribution of investment resources and, consequently, experiences failure. And vice versa, government measures in the investment sphere should be enhanced by using more flexible and mixed forms of investment.

Both sides—the market and the state—are important in investment activity, and so their optimal combination is important: the role of the state cannot become absolute in the investment process, but nor can the role of market instruments be underestimated. What is more, the state's potential should not be exaggerated, without recognizing the role of self-regulation and the stimulation of investment activity. A rational synthesis of state regulation and market mechanisms will make it possible to solve the main investment tasks.

The special features of state regulation of the investment activity of commercial banks consists primarily of assisting them to form a supply of investment capital, stimulate demand for it, and create a banking system capable of ensuring the redistribution of this capital, while preserving stability of the banking sector itself. The latter condition is only possible if alternative sources are developed for satisfying the investment demand, since the investment potential necessary for ensuring the growth of the Kazakhstan economy cannot be accumulated advantageously, and particularly exclusively, in commercial banks. In practice, this would mean the accumulation of systemic risks and an increase in the cost of borrowing. Financial mediation should be diversified by developing a stock market in order to raise the efficiency of the banking system in redistributing capital.

In our opinion, state policy aimed at regulating the demand for investment capital should be the focus today in developing the investment processes in the country as a whole and the activity of banks as investors in the national economy in particular. Conditions must be created for stimulating the investment activity of economic agents in priority branches of the economy, raising their investment attractiveness, and stimulating the activity of banks in these branches. The state controls the powerful levers of indirect influence on the volumes and vectors of investment flows, the rational use of which will help, first, to raise the role of banks' participation in the modernization and restructuring of the national economy, and second, lower banking risks when investing in the real sector of the economy.

REGIONAL POLITICS

ECONOMIC ASPECTS OF TERRORISM (*With a Reference to the OSCE*)

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This note addresses terrorism with a focus on selected economic and policy issues, including the actual role of the OSCE in the fight against terrorism. Considering the vast amount of literature on terrorism published after “9/11,” a selection of topics and reference material had to be made, partly relying on personal preferences and perception of the phenomenon. However, we believe that the selected issues are relevant for addressing terrorism from the standpoint of economic policy at least.

Four parts are distinguished:

—The **first one** reviews a set of preliminary issues such as defining terrorism, history, geography, data and research.

—The **second part** presents recent findings about the costs of terrorism and the benefits of antiterrorism.

—The **third part** concentrates on the economic analysis of the phenomenon and policy implications: statistical regularities and forecasting, poverty, suicide terrorism, wealth and sponsoring, and immigration.

—The **fourth part** summarizes the role of the OSCE economic dimension in the fight against terrorism.

It should be made clear that terrorism is a very complex phenomenon that combines many factors such as ethnicity, minority/majority status and relations, social stratification and mobility, “territori-

The views are those of the author only and do not represent an official position.

ality” and statehood, etc. Subsequently, for the sake of effectiveness and success, economic policy measures that address terrorism must be designed in the context of broader policies and strategies that integrate other, and possibly, more important dimensions, including the need for a sustainable peace settlement in the Middle East, and moving ahead

with democratization and the protection of human rights in many countries, including those that are seen as “fragile states” by the OECD.¹

¹ OECD fragile states correspond to the 35 “poorest” countries as identified by World Bank calculations, plus Afghanistan, Liberia, Myanmar, Somalia and East Timor (see the OECD website [www.oecd.org]).

1. Preliminary Remarks

1.1. *The Quest for a Common Definition*

The lack of consensus. There are many definitions of terrorism proposed by the media, experts, academia, research, politicians, governments and international organizations. Considering the international community, the first attempt to provide an internationally acceptable definition was made in 1937, within the framework of the *League of Nations* (see [Box 1](#)). The drafted convention never came into existence, and U.N. member states still continue to disagree.² In fact, experts predicted that the dispute about defining terrorism will not result in the consensus.³

Box 1: Definitions of Terrorism

League of Nations (Draft, 1937)

All criminal acts directed against a State and intended or calculated to create a state of terror in the minds of particular persons or a group of persons or the general public.

The CIA/U.S. Code

The Intelligence Community is guided by the definition of terrorism contained in Title 22 of the U.S. Code, Section 2656f(d):

- The term “**terrorism**” means premeditated, politically motivated violence perpetrated against noncombatant targets by subnational groups or clandestine agents, usually intended to influence an audience.
- The term “**international terrorism**” means terrorism involving the territory or the citizens of more than one country.
- The term “**terrorist group**” means any group that practices or has significant subgroups that practice international terrorism.

² See the website of the U.N. Office on Drugs and Crime [www.unodc.org].

³ For more detail, see: O. Malik, *Enough of the Definition of Terrorism*, Royal Institute of International Affairs, London, 2001.

Comments and Questions

- The League of Nations includes criminal acts against a State whereas the U.S. Code seems to exclude it. That difference may matter for interpreting facts and could be one of the factors explaining the lack of international consensus.
- What does the expression “politically motivated” mean? Is a “religious factor” a political one? What about hate caused by racism? Is there room for psychological variables? What does a “subnational group” mean? Does it have to be a minority? What is then “national”? How to define a group? What size, structure and relationship are required to be seen as a terrorist group?

Sources: UNODC website [www.unodc.org]; CIA website [<https://www.cia.gov/terrorism/faqs.html>].

The limits of international cooperation. The absence of a universally accepted definition of terrorism matters for the international community because it may not allow for a common position regarding acts of violence and responses, which reduces the scope of cooperation among countries.

National security policy and semantics. The lack of a universal definition of terrorism may also matter within countries—particularly in democratic regimes for which transparency and accountability should be the rules—and might have significant economic consequences. For instance, the use of public funds to address terrorism by governments has to be justified by those who may advocate costly, risky and far-reaching responses such as the use of military forces and intervention in third countries. From that perspective, the impact of semantic issues about terrorism on the mobilization and the allocation of public resources can be seen as a key-issue for economists, and others.

1.2. History and Geography of Terrorism

“An old and recurrent phenomenon?” It seems that the term “terrorism” was coined during the French revolution when the rule of terror was instituted and left thousands dead.⁴ Considering the activities of small groups or individuals before WWI, anarchists were known for acts of violence that would not only kill those who were targeted, but also other innocents. After WWII, terrorism has been, and in some cases is still, connected with the activities of separatist or ultra-nationalistic organizations, rightist and leftist groups, mainly of domestic origin—and sometimes with external support. Thus, from the 1960s until the late 1980s, the main motives for terrorism were political, aiming often at destabilization and/or at the creation of a new state, and ideological, with Marxist-oriented or “reactionary” paradigms providing a rationale for extreme violence.

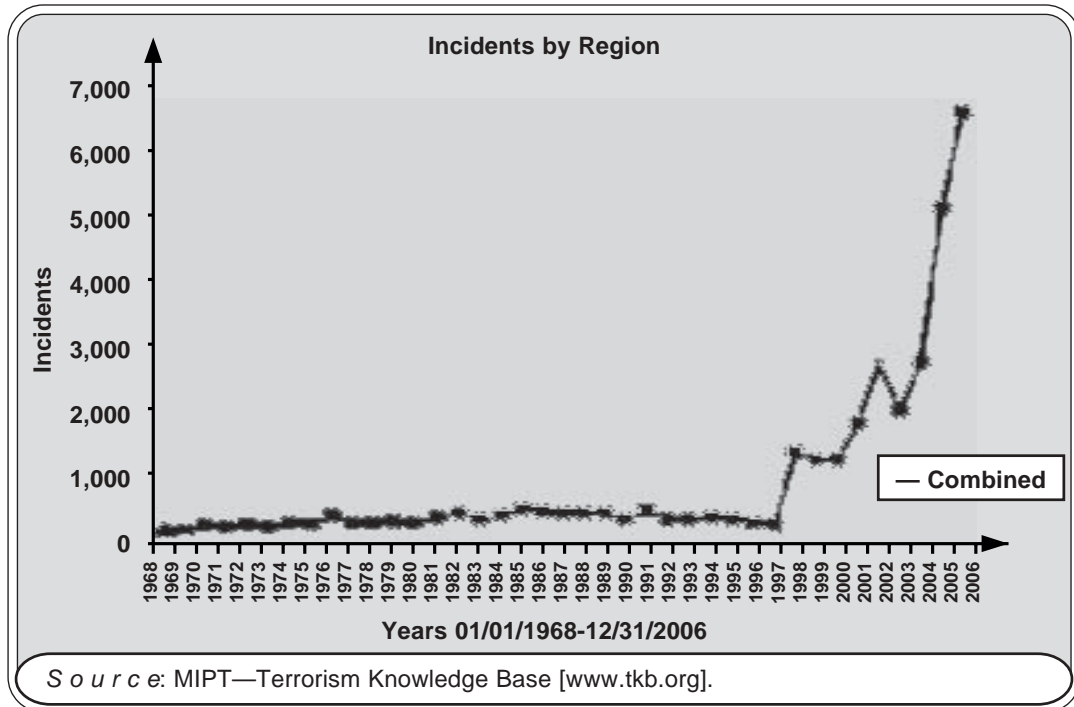
The evolution and transformation of terrorism. As indicated by Enders and Sandler, the dominant nature of terrorism has changed over time with more internationalization and globalization, the emergence of religious factors in the 1990s, and the growing recourse to suicide.⁵ When counting the number of terrorist groups, the proportion of religious ones might still be increasing, and there could even be a large number of potential candidates for recruitment, in Muslim countries and minority

⁴ See: D. Townson, *France in Revolution*, Hodder & Stoughton, London, 1990, pp. 82-93 (“The Political Terror”).

⁵ See: W. Enders, T. Sandler, “Is Transnational Terrorism Becoming More Threatening? *Journal of Conflict Resolution*, Vol. 44, No. 3, June 2000, pp. 307-332.

Figure 1

Yearly Total Number of Terrorism-Related Incidents in the World, 1968-2006



religious communities—a tendency that could be reinforced by the conversion to radical Islam of Christians and atheists,⁶ the Middle East situation, and the negative perception of the West in some countries and societies. This qualitative change corresponds to new behaviors and outcomes such as riskier endeavors and suicide terrorism, and incidents are likely to result in more death and injuries. Considering Fig. 1, the number of incidents of terrorism does display a strong positive trend over the last 18 years, which reflects conditions in specific regions.

A global concern. Considering geography, *de facto* the Middle East is seen as the major hot spot for terrorism. Nevertheless, all continents are enduring the scourges of terrorism, almost on a daily basis when they are combined. Thus, countries in the West, the CIS region, Asia, the Americas and Africa (see Fig. 2 on p. 120), are confronted with the threat of terrorism—it is a worldwide phenomenon and one major challenge to security and peace in the 21st century.

1.3. Data and Research

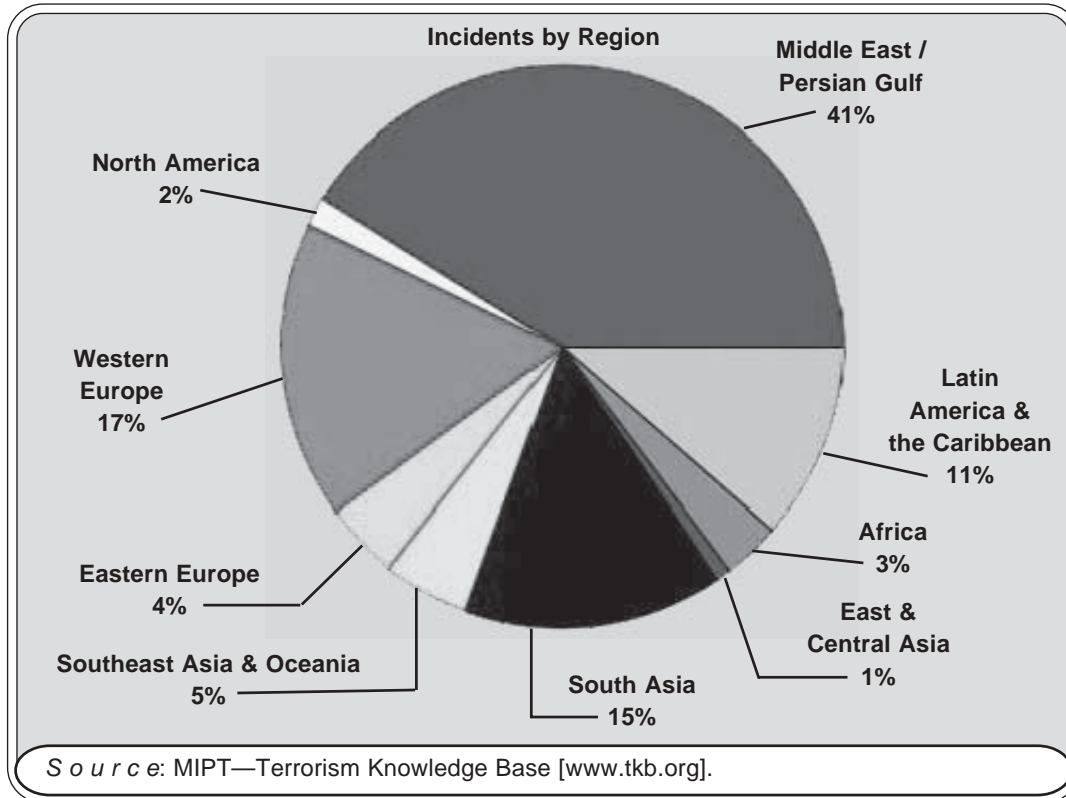
The ITERATE project. There are several databases on terrorism. The so-called ITERATE project in the U.S. is one of the most comprehensive database. That project is an attempt to quantify systematically information on different sets of key-features of transnational terrorist groups.⁷

⁶ This is the case of Russia today, and possibly of other countries too.

⁷ See: "International Terrorism: Attributes of Terrorist Events—ITERATE 1968-2002—Data Codebook," Compiled by E.F. Mickolus, T. Sandler, J.M. Murdock, and P.A. Flemming, 27 July, 2003, on the website of the University of California, San Diego [www.ucsd.edu].

Figure 2

Regional Distribution of Terrorism-Related Incidents, 1/1/1968-16/01/2007



Growing interests. U.N. agencies, the IMF, the Council of Europe, EU institutions, EUROPOL, INTERPOL, NATO, OECD, are all addressing terrorism, and there are more and more think-tanks and research institutes involved in the study of terrorism; for instance, there is *RAND* in the U.S., the *Centre for the Study of Terrorism and Political Violence* in the U.K., the *Institute for Peace Research and Security Policy (Institut für Friedensforschung und Sicherheitspolitik)* in Germany, the *Foundation for Strategic Research (Fondation pour la Recherche Stratégique)* in France, the *International Crisis Group* in Brussels, the *Center for Policy Studies (Центр политических исследований)* in Russia, etc. *De facto*, expertise on terrorism is mushrooming. Considering economics, studies on terrorism indicate a wide diversity of topics and approaches ranging from simple descriptive works to more sophisticated time series analysis relying, for instance, on the estimate of so-called spectral density functions, logit-probit or more complex econometric models. From an applied economic perspective, the U.S. experts Enders and Sandler made major and influential seminal works on terrorism.

2. The Economic Costs of Terrorism

In addition to the loss of lives and suffering, the economic costs of terrorism are manifold and can be tremendous. For the sake of illustration, 9/11 is considered. Recent estimates, based on econometric modeling, of the costs of terrorism for the world economy are also presented.

2.1. The Costs of 9/11

Immediate and short-term costs. The immediate economic costs of 9/11 correspond mainly to the destruction of buildings and planes. According to OECD experts, the destruction of physical assets amounted to about \$14 billion for the private sector, and \$2.2 billion for the public sector (U.S. Federal, State and local governments). In addition, rescue, cleanup and related costs could represent at least \$11 billion. The price of most financial assets also fell. In New York, 200,000 jobs were lost or reallocated. There was another deadly terror attack just after 9/11, with lethal anthrax spores—a mimic effect. As a result of 9/11, business confidence in the U.S. and other OECD countries decreased and the subsequent projected cumulated losses through the end of 2003 corresponded to \$500 billion for the U.S., or 5% GDP. *De facto* the economy proved much more resilient than expected because of household consumption, defense expenditures, and a strong policy response.⁸

Medium-term and long-lasting implications. The insurance business was directly hit by 9/11 and had to disburse up to \$58 billion, the largest insurance disbursement in history, undermining the capital base of several companies even if there were no major bankruptcies. The insurance business reacted by raising insurance rates and decreasing the coverage. Another consequence is the imposition of more controls on the shipping and transportation industry, which could impede trade. In fact, stricter border controls may correspond to the adoption of new international standards for formalities and procedures, which may facilitate trade. A third economic consequence of 9/11 is the rise of public expenditures for national security purposes, eroding the “peace dividends” permitted by the end of the Cold War. In addition to the public sector, the private sector is investing more on security. Higher public and private expenditure for security purposes may negatively impact on investments in productive activities—there is a “crowding out effect”—and, as a result, economic growth performance could decrease.⁹ The welfare costs in terms of people’s utility losses (because, for instance, of higher stress when traveling) should be added to the picture.¹⁰ “The costs of misplaced policies, including the creation of an unwieldy administration, the use of threat assessments to distort political outcomes, and the failure to utilize relevant conceptual and adequate empirical tools in the formulation of policy responses” could also be considered.¹¹

Developing countries. The world largest economy was hit by 9/11. The impacts for less developed economies were and are still far from negligible. The short-term impacts corresponded to a widening of bonds spreads on financial markets, making state borrowings more expensive, a fall in commodity prices and a weakening of domestic currencies. In the long-term, the higher costs of border control will impact on the exports of developing countries.¹² Tourism is also affected. Last but not least, visa requirements became more stringent and there will be more controls against illegal immigrations, impacting negatively on workers remittances.

2.2. Global Costs of Terrorism

Methodology. In a fairly recent paper, Nicole and Mark Crain provide a model to estimate the costs of terrorism, and the benefits of antiterrorism. The Crain’s paper seems to be the first serious estimate of the benefits of reducing terrorism, with the use of economic analysis, econometric

⁸ For more detail, see: “Economic Consequences of Terrorism,” *OECD Economic Outlook*, June 2002, No. 71, Chapter 4.

⁹ See: J. Penm, B. Buetre, Q.T. Tran, “Economic Costs of Terrorism—An Illustration of the Impact of Lower Productivity Growth on World Economic Activity Using GTEM (global trade and environment model),” Australian Bureau of Agricultural and Resource Economics (ABARE) eReport 04.8, Government of Australia, 2004.

¹⁰ See: B.S. Frey, S. Luechinger, A. Stutzer, “Calculating Tragedy: Assessing the Costs of Terrorism,” University of Zürich, mimeo, 22 July, 2004.

¹¹ This critical view is expressed by D. Gold, “The Costs of Terrorism and the Costs of Countering Terrorism,” New School University, New York, *International Affairs WP 2005-03*, March 2005.

¹² See: “Economic Consequences of Terrorism,” p. 134.

modeling and panel data from the so-called ITERATE project, developed in the U.S. They consider 11,723 incidents of terrorism in 147 countries over the period 1968-2002, with corresponding 37,137 casualties—i.e. the number of individuals killed or injured.¹³

Costs/benefits estimates. The Crain model is used to estimate the costs of terrorism and the benefits of eliminating terrorism from a static perspective, with 2002 as the reference year: “The results reveal that the potential gains to a country from reducing terrorism are quite large... Most striking is the estimated world cost of terrorism, or the benefit of eliminating all international terrorism. If there were no terrorism incidents in 2002, world GDP would have been **USD 3.6 trillion** (italics mine.—D.L.) higher than it was that year” (p. 33).

The figure mentioned by N. and M. Crain is quite huge. It is more than the combined GDP of U.K. and Italy; it corresponds to about one third of U.S. GDP, or 7-9 percent of World GDP. Table 1 provides the benefits of reducing terrorism for selected rich and less rich countries. In absolute terms, the costs of terrorism look tremendous for Spain. For developing countries, there are also high costs.

Table 1

GDP Gains from Less Terrorism

Country	Reduce incidents per year from:	Gain in GDP (million US\$)
<i>Colombia</i>	13 to 12	87
<i>Egypt</i>	5 to 4	221
<i>France</i>	18 to 17	1,161
<i>India</i>	5 to 4	1,132
<i>Indonesia</i>	2 to 1	1,533
<i>Philippines</i>	9 to 8	122
<i>Spain</i>	1 to 0	92,000
<i>U.K.</i>	18 to 17	828
<i>U.S.</i>	3 to 2	40,626
<i>World</i>	To zero for 2002	3,600,000

Source: N. Crain and M. Crain, op. cit.

3. Economic Analysis and Policy Implications

3.1. Statistical Regularities and Forecasting

Terror cycles. In a recent work, Enders and Sandler propose a statistical analysis of time series on terrorism. Spectral density functions—which allow the detection of cycles and identify corresponding

¹³ See: N. Crain, M. Crain, *Terrorized Economies*, Draft, May 2005, available at [http://209.85.135.104/search?q=cache:yIhoWldXNAAJ:cipp.gmu.edu/archive/Terrorized-Economies-Crain-and-Crain.pdf+Crain+N.,+Crain+M.+Terrorized+Economies.&hl=ru&ct=clnk&cd=1&gl=ru].

parameters (e.g. frequencies)—show that incidents tend to display cyclical patterns with the combination of a primary cycle of 58.18 quarters (about 14.5 years) and a secondary cycle of 23.98 quarters (6 years).¹⁴ Spectral analysis can also be used to study specific acts of terrorism such as kidnappings, assassinations and skyjackings, and for which data are adequate.

Forecasting terrorism. The detection of cycles could support the building of forecasting models and, as a result, rationalize further the decision making process, and better mobilize scarce public resources for fighting terrorism.¹⁵ Nevertheless, the forecasting of terrorist incidents assumes that terrorist groups ignore that it can be done and cannot obtain the relevant data. In fact, the information is partly available in books and academic journals, and could be integrated in the preparation of acts of terrorism. As a result, surprise attacks should perhaps be seen as the rule, unless there is a way not to publicize statistical findings. Quantitative analysis must be seen as a method to support and complement other antiterrorist activities.

3.2. The Issue of Suicide Terrorism

A growing threat. “Suicide terrorism is the readiness to sacrifice one’s life in the process of destroying or attempting to destroy a target to advance a political goal. The aim of the psychologically and physically war-trained terrorist is to die while destroying the enemy target.”¹⁶ In 2000, 10 groups were identified as having the capacity to mobilize candidates for suicide terrorism.¹⁷ Confined until recently to a few countries, suicide-terrorism is becoming a global and permanent threat, and it represents a category that requires much more research for better understanding and more adequate responses.¹⁸

Economic interpretation. An attempt to provide an economic explanation to suicide terrorism was made by M. Harrison for whom “trading life for identity” is what really matters.¹⁹ According to the author, there must be a rational choice behind acts of suicide terrorism, a welfare gain by dying, especially when such acts are extensively reported by medias. However, as the number of suicide terrorist acts increases, there could be diminishing returns, which would reduce the incentive for such behaviors.

3.3. Poverty and Terrorism

“Poverty does not matter.” The absence of linkages between poverty and terrorism seems to be supported by conservative politicians and scholars, possibly reflecting a “tradition” for which individuals are fully aware of their choices, behave rationally and should bear the full consequence of their decisions and acts.²⁰ Krueger and Maleckova wrote one of the most representative articles on

¹⁴ See: W. Enders, T. Sandler, op. cit.

¹⁵ See: “Quantitative Analysis Offers Tools to Predict Likely Terrorist Moves,” *Wall Street Journal*, Science Section, 17 February, 2006, page B1, available at [www.usc.edu/dept/LAS/ir/sandler.pdf].

¹⁶ “Suicide terrorism: A Global Threat,” *Jane’s Intelligence Review*, 20 October, 2000.

¹⁷ These groups are: “the Islam Resistance Movement (Hamas) and the Palestinian Islamic Jihad of the Israeli occupied territories; Hizbullah of Lebanon; the Egyptian Islamic Jihad (EIJ) and Gamaya Islamiya (Islamic Group—IG) of Egypt; the Armed Islamic Group (GIA) of Algeria; Barbar Khalsa International (BKI) of India; the Liberation Tigers of Tamil Eelam (LTTE) of Sri Lanka; the Kurdistan Worker’s Party (PKK) of Turkey; and the Osama bin Laden network (al Qa’eda) of Afghanistan” (ibidem).

¹⁸ See: R. Gunaratna, “The Employment of Suicide in Terrorism and Guerrilla Warfare,” in : “Vers une privatisation des conflits?” *Recherches & Documents*, No. 22, Avril 2001, pp. 43-60 (Fondation pour la Recherche Stratégique, Paris).

¹⁹ See: M. Harrison, “The Economics of Martyrdom,” Warwick University, research paper, 2003.

²⁰ This partly reflects the “Economics of Crime” of Nobel Prize winner G. Becker.

terrorism in which the impact of social and economic conditions is minimized.²¹ They conclude that economic models yield very little in terms of predictions because noneconomic factors such as, for instance, personal ambitions and goals also matter to explain involvement in terrorist groups and organizations. Abadie reports similar outcomes.²² He finds that the risk of terrorism is not significantly higher for poorer countries, and he concludes that the level of political freedom is essential for explaining the presence or the absence of terrorism in a country.²³

“Poverty does matter.” The above conclusions are challenged by analyses proposed for the Middle East. For instance, a recent study written by Saleh underlines that beside retaliation and vengeance factors, GDP-related and (un)employment variables matter to explain youth violence and terrorism in the West Bank and the Gaza Strip, which seems to point out to the contradictions of Israeli policy in the occupied territories at least—military presence and controls impede(d) the take-off and the development of a genuine Palestinian economy whereas thousands of new jobs have to be created to keep the youth busy and raise incomes.²⁴ Considering Chechnia, despite domestic and international assistance for reconstruction, the region remains characterized by widespread poverty fuelled by environmental degradation, and non business-conducive conditions with high levels of corruption and rampant crime.²⁵

Case-by-case approach. In the case of 9/11, terrorists were far from being poor. Some of them would belong to middle-class categories, which seems to support some of above arguments that minimize the importance of poverty for explaining terrorism. Similar social conditions partly prevailed for the suicide bombers of the London public transportation system. Nevertheless, in some regions of the world, including Palestine and Chechnia, the social and economic environment may matter a lot. Furthermore, it should be stressed that terrorism negatively impacts on businesses, and causes significant economic decline as that has been the case of the Basque region in Spain—causality works in both directions.²⁶

3.4. Wealth, Money Laundering and the Sponsoring of Terror

The use of money laundering. Terrorist organizations use money laundering to recycle illicit funds. Money laundering is a process by which money is integrated in the legal economy and then re-used openly to finance legal activities. For that purpose, there are complex transfer operations (“so-called layering”) aiming at separating the proceeds from their origins; then “integration” can take place with seemingly legal and legitimate businesses and investments. The al-Qa’eda network has used extensively money laundering, relying on the services offered in major financial and off-shore centers located in several countries. Wealthy Islamic donors and charity institutions, where clerics might play key-roles, provided funds to al-Qa’eda.²⁷ Moreover, the direct or indirect involvement of Saudi officials, diplomats or their relatives, in the funding of 9/11 still remains unclear.²⁸ These experiences

²¹ See: A. Krueger, J. Maleckova, “Education, Poverty and Terrorism: Is there a Causal Connection?” *NBER Working Paper* No. 9074, July 2002. A version of that paper was also published in the *Journal of Economic Perspectives* in 2003.

²² See: A. Abadie, “Poverty, Political Freedom, and the Roots of Terrorism,” *NBER Working Paper* No. 10879, October 2004.

²³ Nevertheless, there might be a strong positive correlation between levels of development and political freedoms.

²⁴ See: B.A. Saleh, “Economic Conditions as a Determinant of Political Violence in the Palestinian Territories,” paper prepared for the Conference “Making Peace Work” organized by the World Institute for Development Economics Research, United Nations University, Helsinki, 4-5 June, 2004.

²⁵ See: D. Linotte, M. Yoshii, “The Reconstruction of Chechnia: A Long-Term and Daunting Task,” *Central Asia and the Caucasus*, No. 5 (23), 2003.

²⁶ See: National Center for Policy Analysis, “Case Study of Terrorism’s Cost: Spain Basque Region,” *Daily Policy Digest, Terrorism Issues*, Friday, 1 February, 2002.

²⁷ See: D. Linotte, “Addressing Economic and Financial Aspects of Terrorism,” paper prepared for the London International Conference “Stop Money Laundering,” 26-27 February, 2002.

²⁸ See: “FBI Probes Possible Saudi, 9/11 Money Ties,” *CNN*, 23 November, 2002.

indicate that, in addition to poverty, and eventually by exploiting unique opportunities created by poverty and subsequent distress, the so-called oil rent and related benefits can lead to far-reaching political actions, including the financing of terrorism.²⁹

Fighting “terror money.” In the case of 9/11, formal and informal banking were used for channeling illicit funds, and within a few months after the event, more than one hundred million dollars had been seized on bank accounts. The FBI reviewed at least 200,000 documents and 10,000 accounts. Some financial operations made by the terrorists and their sponsors do correspond to money laundering. Following 9/11, the international community is better equipped to supervise formal banking operations and detect suspicious transfers. The 9 special recommendations of the Financial Action Task Force (FATF), an institution that is “hosted” by the OECD, represent a “must” for domestic financial systems and central banks, and are adopted in many countries with the support of the IMF:

- I. Ratification and implementation of U.N. instruments.
- II. Criminalizing the financing of terrorism and associated money laundering.
- III. Freezing and confiscating terrorist assets.
- IV. Reporting suspicious transactions related to terrorism.
- V. International cooperation
- VI. Alternative remittance.
- VII. Wire transfers.
- VIII. Non-profit organizations.
- IX. Cash couriers.³⁰

Nevertheless, (i) according to experts, more must be done to implement effectively FATF recommendations, especially in developing and transition countries; (ii) terrorist organizations partly rely on informal banking (the Arabic word *Hawala* refers to “money transfers, regardless of how it is made”); informal banking is based on mutual trust and personal relationship, and it can be faster, cheaper and more reliable than formal transfers; (iii) international seed money for terrorism can be quickly complemented and replaced by funding based on legal economic activities; (iv) for 9/11, the costs of pilot lessons was limited to a few thousand dollars, an amount easily affordable.

3.5. Immigration and Terrorism

The issue of immigration. Immigrants and nationals with foreign roots were involved in 9/11 and more recent acts of terrorism in Western Europe. These involvements raise concerns about immigration policies and integration in host countries. The fact that some terrorists were born in the West and were fully integrated in their communities, with regular jobs and, for some of them, families with children, seems to indicate that a full integration is not enough to prevent a radicalization process and enrolment in terror complots. Demographic tendencies for populations in Muslim countries and minority communities in host countries, particularly in Western Europe, are also seen as worrisome by some “native-Europeans,” conservative and populist politicians, journalists and experts—scenarios

²⁹ The oil rent is also used by Iranian leaders to support their foreign policy ambitions in the Middle East and finance their controversial nuclear program; China is a major client for Iranian energy products.

³⁰ See: [www.fatf-gafi.org].

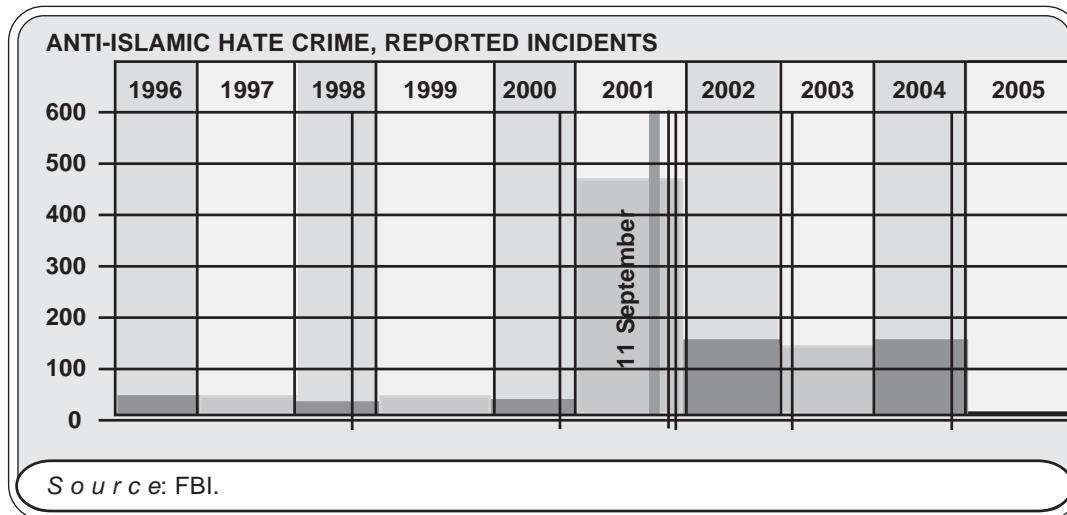
show Muslims as becoming a prominent religious group and political force in Europe, eventually overtaking Christians in some countries.³¹

Rethinking immigration. Immediate measures could relate to a severing of immigration procedures and border controls and, in countries where they apply, a lowering of quotas to reduce the actual number of incomers; more controls of “non-native communities” are also advocated. However, such measures may create tensions between domestic and “foreign” communities in host countries, and could represent a loss of human rights and freedom, and may lead to an open policy of discrimination if a distinction is made between “desirable” and “undesirable” immigration. Moreover, many host/destination countries are characterized by pessimistic demographic tendencies, with low birth rates and the ageing of the population, which implies that immigration might be important for labor supply, and possibly the payment of retirement benefits with income transfers, in addition to revenues of past capitalization. The emigration pressure in home/origin (low and medium income) countries is expected to grow because of positive demographic trends, political uncertainties, limited economic prospects, and for some countries in specific regions, environmental degradation.

Integration versus assimilation. Long-term solutions could insist on the full assimilation of incomers and their descents. Thus, a line is often drawn between integration and assimilation. Broadly speaking, integration refers to the effective inclusion in a society that can be composed of different ethnical, cultural and religious segments that may have little in common—they coexist, most often in peace. Assimilation is a more demanding process by which one cultural group, very often a minority one, is to a large extent absorbed by another group, the majority one, and as a result adopts new values and behaviors. Nevertheless, assimilation *per se* is another quite sensitive issue in societies that favor tolerance and mutual respect, as it is or should be the case in Western countries. Social mobility policies could perhaps be enhanced with adequate education programs, more equal chances for minorities on labor markets, and as a result reverse actual “Islamophobic” tendencies in Europe³² and the U.S. (see Fig. 3). Moreover, development aid, including support to birth controls, could be increased to better contain and eventually reduce emigration pressures.

Figure 3

The Impact of 9/11 on Anti-Islamic Crimes in the U.S.



³¹ According to Daniel Pipes, some 5% of the EU, or nearly 20 million persons, identify themselves as Muslims; should the current trends continue that figure should reach 10% by 2020. If non-Muslims start fleeing the “new Islamic order,” the continent could be majority-Muslim within decades (see: “Muslim Europe,” *New York Sun*, 11 May, 2004).

³² See: “New Report Says Muslims Face Broad Discrimination,” *Radio Free Europe/Radio Liberty*, 18 December, 2006.

4. The OSCE Economic and Environmental Dimension and the Fight against Terrorism

4.1. The OSCE Economic and Environmental Dimension

The Helsinki three baskets and the OSCE economic perspective. The OSCE economic and environmental dimension is one of the three so-called “baskets” of the Helsinki Final Act that was signed by 35 States on 1 August, 1975—the other two baskets being the politico-military dimension, focusing *inter alia* on arms controls and the prevention of conflicts, and the human dimension that relates to the respect of human rights, the imposition of the rule of law and democracy, etc.

The “Strategy Document.” The role of the OSCE economic and environmental dimension was strongly enhanced in December 2003 with the adoption at the Maastricht Meeting of the Ministerial Council of an OSCE “Strategy Document” that underlines the importance of addressing economic and environmental threats and challenges to security.³³ Economic and environmental factors are seen as a crucial contribution to “security, stability, democracy and prosperity.” Responses are identified to improve economic and environmental conditions in the OSCE region; they include further and better integration in the global economy, fostering regional economic integration and cooperation, strengthening energy security, supporting business-conducive environments—a broad agenda indeed, to which we contributed.

Main OSCE economic and environmental activities. The scope of OSCE economic and environmental activities is widening over time, partly because of more resources and growing awareness about the importance of related factors for peace and security. Broadly speaking, much importance is given to good governance and transparency, private sector development with the promotion of SMEs, the adoption of measures aiming at sustainable development, the fight against economic crimes such as money laundering, and the trafficking of human beings. It should be noted that the Coordinators of OSCE economic and environmental activities also shape the development of their office with their own views and experience.

The role of the Coordinators. The first Coordinator of OSCE economic and environmental activities, Tom Price, a former U.S. diplomat, played a major role in gaining support from OSCE participating States and consolidating the economic dimension; the second Coordinator, Marcin Swiecicki, a former Minister of Poland, had a considerable experience with transition and governance issues, and strong views about the need to foster economic and business education; the third and actual Coordinator, Bernard Snoy, was a Belgian representative at the World Bank and EBRD and, in his previous position, he was heading the economic department (Working Table II) of the so-called “Stability Pact” for the Balkans, an essential experience for advocating regional economic cooperation and integration in OSCE regions.

4.2. Contributing to the Fight against Terrorism

The December 2001 Bucharest Meeting of the Ministerial Council. Following 9/11, the OSCE participating States made a Declaration condemning “all acts of terrorism,” and expressed their determination to strengthen and deepen their cooperation to address extremism, violent separatism and terrorism. A “Program of Action” with measures to prevent terrorism was adopted; it underlines the importance of identifying some of the negative socioeconomic and environmental factors that may cause terrorism, namely: “poor governance, corruption, illegal economic activity, high unemployment,

³³ See: [osce.org/documents/sg/20#1600C4].

widespread poverty and large disparities, demographic factors, and unsustainable use of natural resources” (Art 13). Furthermore, the key-role of the Office of the Coordinator of OSCE economic and environmental activities to catalyze actions and co-operation is stressed.

The Strategy Document and terrorism. To a large extent, the SD repeats the wording of the Bucharest Meeting. In addition, the OSCE participating States “will continue to develop, implement and enforce financial legislation and regulations on combating money laundering and corruption and criminalizing the financing of terrorism” (Art 2.1.11).

Concrete economic activities to address terrorism. OSCE economic projects and events reflect the importance given to money laundering in the Strategy Document, and also the 2001 Bucharest Decision on Combating Terrorism. OSCE experts underline that the proceeds of illegal businesses can go through a complex process of money laundering that can play an important role in the financing of terrorism. National workshops on combating money laundering and suppressing the financing of terrorism have been organized in all Central Asia and South Caucasian participating States. These events are jointly implemented with the U.N. Office on Drugs and Crime (UNODC) Global Program Against Money Laundering, which underlines the role of the OSCE as a major catalyst. The OSCE assist States to adopt and implement the special recommendations on terrorist financing of the Financial Action Task Force, which also include a “FATF self-assessment” exercise. Finally, some activities do target the risk of abuse of NGOs and charities, in cooperation with UNODC, NATO and the U.S. State Department.

F i n a l R e m a r k s

- The lack of a universally accepted definition of terrorism did not prevent researchers and policy-makers to address terrorism. Nevertheless, semantic issues seem to impose limits to international co-operation, and matter for addressing terrorism, particularly in democracies.
- Terrorism is not new. However, modern terrorism has specific features such as the dominance of religious factors, the globalization process, and growing recourse to suicide.
- The short and long term economic costs of terrorism can be tremendous. The estimates provided by the Crain’s study proposes a figure above 3 trillions dollars for the world economy in 2002.
- The economic analysis of terrorism and their policy implications are manifold. Table 2 underlines that some measures can be quickly implemented and be rewarding in the medium term—and they are already implemented. Nevertheless, there are risks that can eventually be reduced. From that perspective, the positive role of bilateral and multilateral aid and technical assistance to developing countries should not be underestimated and, when alleviating poverty and reducing emigration pressures, such measures could be seen as contributions to international solidarity, peace and security. A reduction of public expenditures on defense in developed and developing countries could also allow the provision of more funds for development.
- The actual and seemingly irreversible rise of Islam in Europe is a reality that has to be fully integrated in domestic policies to detect, prevent and diffuse tensions, and promote a more peaceful coexistence among communities, and with other regions outside Europe, the South Mediterranean and Middle East neighborhoods in particular. Moreover, an equitable peace settlement among Israel, Palestinians and Arab countries is essential for better containment of terrorism.
- The actual and potential outcomes of Iranian political and nuclear ambitions, funded by the energy rent, have to be assessed carefully as they may matter for international security, and terrorism.
- As indicated by the OSCE economic activities, the financing of terrorism is a major concern for many countries. In that respect, much importance is given to the fight against money laundering

Table 2

Addressing Terrorism—Synthesis Table

The issue	Measures/policies	Timeframe	Problems and risks
Predicting terrorism with data analysis	Building time series and econometric models	Short term; can be done quickly at low costs	Data are not always available or lack accuracy; terrorists could know publicized forecasts and adjust their plans
Preventing terrorism with poverty reduction	Adoption of poverty alleviation policies and strategies; institutional development; building business conducive environments	Medium and long term	Lack of resources is often an issue and foreign aid does not often fill the gap
Deterring terrorism by fighting dirty money	Adopting measures to better detect suspicious financial flows and transactions	Short and medium term	Lack of experience and expertise is an issue; external aid required for some countries
Impeding terrorism with trade-related measures	Adopting new control instruments for international commerce in line with trade facilitation measures	Medium term	Low and medium income countries are lacking resources and experience; assistance is required
Diffusing terrorism by better controlling immigration	Enhancing controls on the cross border movement of people; more assimilation if possible; access to good education and equal chances for all; reducing incentives for emigration	Medium and long term	More hostile attitude against immigrants and minorities in host countries; development aid insufficient

and the abuses of NGOs. There are also challenges and risks: informal finance does not seem to be addressed despite its importance in low and medium income countries, and among communities of immigrants; moreover, the control of NGOs can be abused by some governments to contain the rise of civil society and democracy, and ultimately strengthen authoritarian-like political regimes, particularly in Central Asia, the Caucasus and Western CIS.

TURKMENISTAN: CHANGING STATE POWER CONSTRUCTS AND POLITICS

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It is extremely hard to obtain reliable information of any sort about the political developments in Turkmenistan. The ruling regime is too closed to be studied in any detail. The latest events, however, revealed hitherto concealed aspects of Turkmenian policy.

President Niyazov's death created an absolutely new political situation in the country. This was the first time in post-Soviet history that the military and law-enforcement structures represented by the Security Council assumed responsibility for the future of the country and the nation. It acquired its leading role and the right to remove the president and/or chairman of the People's Council—Khalk Maslakhaty (KM), the parliament—under the constitutional amendments. The changes in the ruling elite that began when KM Speaker O. Ataev was removed from his post to make it possible to nominate G. Berdymukhammedov as presidential candidate were successfully completed when he was elected president; the country also acquired a new Cabinet. On 30 March, the results were confirmed by the election of the new president as chairman of the Khalk Maslakhaty.¹

¹ See: XX zasedanie Khalk Maslakhaty. 30 marta 2007. Governmental Internet site *Turkmenistan: The Golden Age*, 30 January, 2007, available at [www.turkmenistan.gov.tm].

To legitimize their power in the eyes of the nation and the international community, the new leaders eased up on the pressure imposed by the regime and outlined measures designed to improve the people's standard of living. The new rulers did not hesitate to prevent any form of anti-government activity and took pains to ensure that political emigrants remained abroad in order to exclude their involvement in Turkmenian politics in the near future.

In fact, there is no need to tighten the regime's grip on power to earn the nation's respect. The new elite should be more open; it should invite the world to engage in a reasonable and equal dialog; the regime will inevitably be less strict.

The new Turkmenian leadership is clearly hoping to improve the country's international image; it has already started active and dynamic talks with all the interested forces (Russia, the U.S., Iran, China, Kazakhstan, and Azerbaijan). In the absence of any real alternative to the Russian gas export route, Ashgabad will continue improving its relations with the Kremlin, a trend that is already clear under the new conditions. The prospect of new export pipelines is vague because of the highly complicated geopolitical context; it is not yet clear whether the country has enough fuel reserves, in addition to those already sold under long-term contracts.

President Niyazov's Death and Changes in the State Power Constructs

Despite the more or less regular media reports about President Niyazov's deteriorating health, which appeared in particular in May and early October 2006,² his death came as a surprise for many.

² See: K. Zatsepin, "V Turkmenistane nazrevaet revolutsia. Niyazov smertel'no bolen," Internet publication *Ukraine Daily*, 16 May, 2006, available at [www.udadaily.net]; G. Savchenko, "Otets vsekh Turkmen ne vechen. U Saparmurata

His closest circle, however, was obviously prepared and had already come to terms on the best course of action.

On 21 December, 2006, the State Security Council assumed power to prevent any political complications. There is no exact information about the personal composition of the new highest structure of state power. It seems that it is staffed with high-ranking officers of the law-enforcement bodies, the presidential security service, and top officials of the Prosecutor General's Office. Under Niyazov, the Security Council, as a consultative structure, had no important role to play in state administration³ and was deprived of any real power. In the vacuum created by the president's death, it proved to be the only structure capable of preserving stability.

Immediately after Niyazov's death was announced to the nation, the Security Council removed KM Chairman O. Ataev from his high post, which under the constitution made him interim president. This was done under the pretext of a criminal investigation that, according to official sources, had begun several weeks earlier. The Security Council and the Cabinet of Ministers agreed to appoint Vice Premier Gurbanguly Berdymukhammedov as interim president and commander-in-chief of the army.⁴

Five days later these steps were confirmed by constitutional amendments passed by the 19th special sitting of the KM. At first glance, the substitution of the KM chairman as interim president, in the event of the death or resignation of the elected president, for a vice premier of the republic's Cabinet was one of the most important amendments, along with permission for the acting president to run for presidency and the changed age limits for the posts of president and KM chairman.

In actual fact, other amendments were even more important: revised Art 50 gave the Security Council the legal power to decide whether the president was able to fulfill his duties or not, which means that it acquired the legal right to remove the president and appoint an interim president.

Under the Constitution, decision-making on all key issues belongs to the KM; the KM chairman, or the president, has the right to convene the parliament (since 30 March, 2007, both posts are filled by one man, G. Berdymukhammedov, which continues the tradition started by Saparmurat Niyazov). The new version of Art 50 of the republic's Constitution says that in cases when the chairman of the Khalk Maslakhaty or the president of Turkmenistan cannot fulfill their duties for any reason, the Khalk Maslakhaty is convened by the State Security Council.⁵

The amendments did not specify the main issue: who is empowered to decide that the KM chairman or the president "cannot fulfill their duties." At the same time, the fact that the Security Council acquired the right to convene the KM means that the Council is empowered to pass a judgment on the head of state's inability to perform his duties. The fairly vague wording of the amended article allows the Security Council to remove the president and the KM chairman. Such actions cannot be described as illegal.⁶

On 11 February, 2007, the new power structure acquired full legitimacy in the eyes of at least the majority of the country's population and the international community as soon as Gurbanguly Berdymukhammedov was elected the second president of Turkmenistan by general vote. By nominating a common presidential candidate as a sure winner and bringing the first presidential alternative election in the history of Turkmenistan to its successful conclusion, the ruling elite demonstrated its ability to compromise. Contrary to expert forecasts, the power system in Turkmenistan survived thanks to the constructive changes.

Niyazova mogli obostritsia problemy a serdtsem," *Gazeta*, No. 180, 4 October, 2006; A. Dubnov, "Niyazov zaby1 pro post. I prichislil sebia k bol'nym i beremennym zhenshchinam," *Vremia novostey*, 25 October, 2006.

³ See: Ch. Topyev, " 'Glavnym' v Turkmenistane po novoy konstitutsii stal Akmurad Redjepov," *Internet Gazeta Turkmenskaia iskra*, 27 December, 2006, available at [www.tm-iskra.org].

⁴ See: "Turkmenistan Declares National Mourning," *Internet newspaper Turkmenistan.Ru*, 21 December, 2006, available at [www.turkmenistan.ru].

⁵ See: "Changes and Amendments Introduced to the Constitution of Turkmenistan," *Internet newspaper Turkmenistan.Ru*, 27 December 2006, available at [www.turkmenistan.ru].

⁶ See: Ch. Topyev, *op. cit.*

Changes in Social and Economic Policy

As long as the ruling regime remains in power and gas and cotton export continues to bring in enough money, the state will steadily pour money into social services, while cutting short any attempt at creating a more pluralist political system.⁷ The new leaders may count on wide support from the people by annulling some of the former president's reforms.

As the former health minister, the new president should pay special attention to medical services. As soon as he became president, he signed several decisions designed to increase the supply of cheaper medications⁸ and announced that old medical centers would be reopened and new ones built.

The presidential candidate's promises to reform the pension system, which for several years has not been paying well-earned pensions to a considerable number of old-age pensioners on the strength of the late president's decision, ensured G. Berdymukhammedov national support. The revised pensions will be paid starting on 1 July, 2007.

Wide-scale educational reform was a cornerstone of Gurbanguly Berdymukhammedov election platform. He promised to restore 10-year secondary education and 5-year higher education; include Russian and English in the secondary school curriculum, open new higher education establishments to create more student vacancies, give more gifted young people the opportunity to study abroad, and invite foreign lecturers to Turkmenian institutions of higher learning.⁹

On 14 February, 2007, he confirmed his promises in his inauguration speech in front of VIP guests; on the second day of his presidency he signed a decree on educational reform.¹⁰

The new leaders pledged to preserve the privileges people enjoyed under the previous president: free supplies of set amounts of salt, drinking water, natural gas, and electric power. The government also pledged to keep gasoline prices at a low level.

In the first days of his presidency, G. Berdymukhammedov introduced a state monopoly on bread and flour trade, probably to cope with the wheat shortages. After Niyazov's death, the interim rulers avoided mass discontent over bread shortages by increasing supplies of bread and other foodstuffs. Most of the poorer population groups normally shop for foodstuffs, clothes, and consumer goods at the markets, where prices are extremely flexible, which makes the inflation level hard to determine.

The election programs of the six presidential candidates cover the entire range of the worst social ailments: unemployment, food shortages, overdue reforms in the agrarian sector, water use, the declining number of livestock, inadequate housing construction, drug addiction among the youth, education, pensions, and medicine. The voters wanted state regulated food and consumer goods prices and indexed wages, which indirectly confirms the high inflation level.¹¹ The most probable steps in social liberalization will be more grain purchases. In the near future, the country may fill the market with consumer goods so far in short supply.¹²

⁷ See: D. Azimov, "Turkmenistan: What Chance of a Thaw?" *Institute of World and Peace Reporting, Reporting Central Asia*, No. 480, 29 January, 2007, available at [http://iwpr.net/?apc_state=hrufrca328880&l=en&s=f&o=329191].

⁸ See: A. Dubnov, "Turkmenskaia terapiia," *Vremia novostey*, 28 February, 2007.

⁹ See: "Gurbanguly Berdymukhammedov Sets to Increase the Number of Higher Education Establishments and Carry Out Pension Reform," Internet newspaper *Turkmenistan.Ru*, 11 January 2007, available at [www.turkmenistan.ru]; A. Dubnov, "Tri nedeli bez vozhdia. Turkmenam poobeshchali poezd na Rossiiu," *Vremia novostey*, No. 2, 11 January, 2007.

¹⁰ See: "Gurbanguly Berdymukhammedov Introduces Major Education Reform in Turkmenistan," Internet newspaper *Turkmenistan.Ru*, 15 February, 2007, available at [www.turkmenistan.ru].

¹¹ See: "Voters Want State Regulated Prices for Goods and First Necessity Products," Internet newspaper *Turkmenistan.Ru*, 16 January, 2007, available at [www.turkmenistan.ru].

¹² See: "Round Table Discussion within the Program 'Religion, Society, and Security' that discussed the subject 'What will Happen in Turkmenistan?'" (The Carnegie Endowment for International Peace, 23 January, 2007), Carnegie Moscow Center, 30 January, 2007, available at [www.carnegie.ru].

The admission that drug abuse and drug trafficking were among the worst problems is a sign of the new leaders' new approach. Nearly all candidates, particularly G. Berdymukhammedov, openly discussed the issue during their election campaign; 562 kg of drugs (including 49 kg of heroin produced in Afghanistan) were destroyed in Ashgabad on the election eve in front of foreign diplomats and members of international organizations.¹³

If fuel prices remain high, the gas- and oil-rich country may rest assured of its economic future.

The majority, however, are more concerned with reform in the agrarian sector; the Security Council has already said a lot about the overripe changes in the state's policy in the agrarian sector. Much was also said about this during the election campaign.

Only 3 percent of the land is irrigated; nearly half of the area is planted with cotton, which means that the country cannot grow enough wheat. It needs 1.7 million tons, which cannot be locally produced on any sustainable basis.¹⁴ No wonder, under Niyazov many of the regional leaders were removed either because they failed to produce the planned amount of cotton and wheat or because they doctored the figures.

The new leaders used alternative candidates to inform the nation about some of their plans: at least two of the candidates spoke of increasing the role of private capital in the national economy (in the agrarian sector in particular) and in the country's integration into the world economy.¹⁵

The new leaders probably used this to warn the public about the coming changes: partial privatization of industry and agricultural land. This will give the ruling elite a chance to divvy up the most attractive national economic assets among themselves. This hardly democratic method notwithstanding, private capital will undoubtedly add flexibility to the national economic system.

According to the Azerbaijanian information agency Trend, in March the new president stated several times that his Cabinet was resolved to increase the production of energy fuels (particularly oil) in the Turkmenian sector of the Caspian shelf at a faster pace. His statement about the need "to expand mutually advantageous partnership with foreign investors and companies which use high technologies"¹⁶ deserves special mention. This should be interpreted as a direct invitation to foreign investors to put their offers related to the Turkmenian market of oil and associated gas production on the table.

For the time being, Ashgabad is unlikely to demonopolize the production and transportation of natural gas (something that has been done in the oil sector): gas export is too important for the national economy. Foreign investors will have to accept the political risks of working in the Turkmenian sector, since the Caspian between Azerbaijan, Iran and Turkmenistan has not yet been delimited.

Expectations of Liberalization in the Sociopolitical Sphere

The expert community has agreed that in the next six months liberalization of the ruling regime will proceed stage-by-stage. The Berdymukhammedov Cabinet has already extended access to the

¹³ See: "Turkmenistan Destroys Over Half Tonne of Narcotics," Internet newspaper *Turkmenistan.Ru*, 7 February, 2007, available at [www.turkmenistan.ru].

¹⁴ See: "Grains of Truth in Turkmenistan," *Institute for War and Peace Reporting, Reporting Central Asia*, 14 February, 2006, available at [http://iwpr.net/?apc_state=hrufca257360&l=en&s=f&o=257361].

¹⁵ See: B. Pannier, "Turkmenistan: Sorting Out the Presidential Candidates," *Radio Free Europe / Radio Liberty*, 7 February, 2007, available at [www.rferl.org].

¹⁶ "Turkmenia ob'javliaet o polnomashtabnom osvoenii uglevodorodnykh resursov Kaspia," Trend Information Agency (Azerbaijan), 25 March, 2007, available at [http://news.trendaz.com].

Internet and liberalized the restrictions on movement around the country. During his election campaign, the new head of state announced that, "in the future," the country might acquire a multiparty system and described the "democratic processes in Turkmen society as irreversible."¹⁷

The country has acquired wider access to information: the government Internet newspaper *Turkmenistan.Ru* carries neutral articles from the Russian press and more or less critical discussions of Turkmenistan's new political context by foreign political scientists.¹⁸

Liberalization went even further than that: the new leaders invited OSCE observers to watch the presidential election;¹⁹ some of the OSCE team members were very critical about the election, but the very fact that they had been invited at all spoke of important shifts in the country's policy. Before that, no foreign observers had ever been invited.

The ruling elite deemed it wiser to snatch some of the slogans from the opposition rather than tighten control over society: increased supplies of foodstuffs (the opposition's "flour revolution"), reform of education, medical services, and the pension system, wider access to the Internet, etc. Liberalization will not obviously widen the circle of those involved in domestic policy at the expense of the opposition; the leaders tend to dismiss Western criticism of human rights violations in Turkmenistan.

Some of the opposition members in exile admitted that if after the presidential election the ruling elite goes on talking about what was promised during the election campaign (future liberalization), the process of cautious democratization would become irreversible.²⁰

On the other hand, there is the opinion that most of the promises are idle talk and that the new leaders will never let control out of their hands. This means that the positive expectations inside and outside the country are being used to tighten control over the country and rule out real political liberalization.²¹

It seems, however, that the intentions are quite serious: this is amply testified by the consistent nature of the new president's statements and the new Cabinet's recent steps. Wider access to information will add freedom to the press and help create civil society institutions in Turkmenistan.

As for the specifically Central Asian problems (which differ greatly from those the rest of the post-Soviet expanse is dealing with), the threat of an outburst of Islamic fundamentalism looks minimal, even though the country is living in a situation of uncertainty, something which is inevitable after the long rule of one leader. Despite the close proximity of Iran, the Turkmen are less susceptible to religious radicalism than their neighbors in Uzbekistan and Tajikistan. The Muslim clergy and Islamic educational establishments are closely and effectively controlled by the state, while all the roots of political extremism were pulled out at the early stage.

From time to time, however, information about a gradually growing number of Hizb ut-Tahrir supporters does appear, particularly among prison and colony inmates. This means that today and in the near future we cannot exclude the long-term possibility of a stronger Islamist position in Turkmenistan, a country that borders on Iran, Afghanistan, and Uzbekistan, which is not entirely stable in this respect.

¹⁷ "Presidential Candidate Emphasizes Irreversibility of Democratic Processes in Turkmenistan," Internet newspaper *Turkmenistan.Ru*, 25 January, 2007, available at [www.turkmenistan.ru].

¹⁸ See: "Round Table in Moscow Discusses Upcoming Presidential Elections in Turkmenistan," Internet newspaper *Turkmenistan.Ru*, 7 February, 2007, available at [www.turkmenistan.ru].

¹⁹ See: "Turkmenia dopustit na vybory inostrannykh nabliudateley," *Delovaiia gazeta "Vzgliad"*, 20 January, 2007.

²⁰ See: Round Table Discussion within the Program...

²¹ See: N. Nikolaev, D. Ozodi, "Strategia i taktika novoy vlasti v Ashkhabade," *IA Ferghana.Ru*, 27 February, 2007, available at [www.ferghana.ru].

Ashghabad's Foreign Policy in the Context of Gas Export and the Geopolitical Situation in the Region

Fairly extravagant and unpredictable, Saparmurat Niyazov was a skilful foreign policy player who could maneuver between the interests of various political forces. A skilful negotiator, he landed on his feet every time, no matter how complicated the situation.²² So far, it is unclear whether the new leaders will demonstrate similar abilities; it should be said in all justice that they have been able to reach an agreement among themselves.

The following foreign policy issues can be described as the country's top priorities:

- Stabilization of the ruling regime by excluding negative influence from abroad;
- Neutralization of the negative impact of the Iran-U.S. confrontation;
- Stable gas export at acceptable prices;
- Delimitation of the Caspian and its resources;
- Better relations with Central Asian neighbors.

In the short-term perspective, the new leaders should work toward legitimizing the post-Niyazov regime in the eyes of the world community. This is the country's top priority. Some of the distance has been partly covered by the successful election campaign and public inauguration attended by official representatives of Russia, China, the United States, and other countries. It looks as if further liberalization of the regime will improve Turkmenistan's relations with the West.

The new leaders will have to work hard to minimize the risk of being drawn into the American-Iranian conflict; they will have to perform a highly tricky balancing act to preserve stable relations with Tehran in opposition to the Americans' intention of gaining access to the country's military infrastructure in order to station their land troops and complete encirclement of Iran and of gaining access to the region's largest military airbase in Mary.

Under the late president, there were no conflicts between Ashghabad and Tehran; trade and economic contacts were fairly developed, but in the political sphere there was no closeness between the secular regime in Ashghabad and the clerical regime in Tehran. To avoid any complications with the United States, Turkmenistan cut back its gas export to Iran. As a gas-exporting country, Iran is exploiting its transit position to keep Turkmenian gas export within certain limits. For these reasons, the new leaders will hardly seek closer relations with the IRI; on the other hand, they are unlikely to allow the U.S. to use their territory and air space to deliver strikes on Iran.

The country's neutral status in this highly conflict-prone region looks like an advantage to be preserved as one of the priorities. In fact the newly elected president has already promised this. According to most experts, neutrality is one of the best options for a country driven into a geopolitical corner: it can play on the disagreements between Russia, the United States, and Iran, which are having the greatest influence on Turkmenistan.

Russia will remain the key figure in the gas-export sphere: relatively cheap Turkmenian gas goes to the Urals and other Russian regions, while excess West Siberian gas is sold to Europe. In fact, discontinued gas export from Turkmenistan might upturn Russia's gas balance.

²² See: S. Akimbekov, "Pod turkmenskimi gazom," *Kontinent* (Kazakhstan), No. 1 (186), 17-30 January, 2006, p. 20.

In an effort to improve the relations between the two states, the Russian airline company Siberia opened a direct flight between the two countries; there are plans to restore railway transportation.²³ By releasing an ecologist with two passports (Russian and Turkmenian) who was arrested shortly before President Niyazov's death, Ashgabad demonstrated its desire to remain friends with Moscow. After taking into account the Russian Foreign Ministry's appeal, A. Zatoka was sentenced to three years in prison on probation.²⁴

Today Moscow and Ashgabad are mutually interested in stronger bilateral relations; for the next two years, Turkmenian diplomats will be engaged in maintaining mutually advantageous relations with Russia as the main gas buyer.

Today the country produces about 60 billion cu m of gas every year; Gazprom buys 40-42 billion cu m to be consumed in Russia and Ukraine (through RosUkrEnergo); about 8 billion cu m go to Iran, and the rest is consumed inside the country.²⁵

According to the Soviet assessment confirmed by BP, the country's proven gas reserves are about 3 trillion cu m. The Turkmenian authorities insist on 6 trillion cu m or an even larger figure. So far, the expert community remains fairly skeptical about this: the figures of the latest international auditing conducted with the help of ADB in 2005 have not yet been published. Ashgabad deliberately overstates the figures to strengthen its negotiating position.²⁶

So far the possibility of gas pipeline alternatives to the Russian one (to China, and trans-Caspian and trans-Afghan pipelines) looks vague because the available volumes of gas have been already sold under contracts; there are restrictive geopolitical factors as well. The situation may change if larger gas reserves are proven.

Judging by the new president's first statements, the Chinese vector will be the most preferable among all the other alternatives to the Russian routes, if larger amounts of unsold gas are found. Kazakhstan, as a transit country, will profit from the Chinese alternative as well.

The very fact that Georgian President Mikhail Saakashvili, Turkish Premier R. Erdoğan and Azerbaijani Premier A. Rasizade attended the inauguration ceremony confirmed their, and America's, interest in Turkmenistan's involvement in the planned trans-Caspian pipeline. So far, the country's participation looks doubtful because of the gas shortage, Gazprom's negative attitude, and the price pressure on Ashgabad. Iran might object to a pipeline in the Southern Caspian; there is information that the neighbors have already warned Turkmenistan.²⁷

In November 2006, Turkmenistan signed another agreement in Delhi on a trans-Afghan gas pipeline; the project stands little chance of being implemented because of the above considerations. As for India, there are obvious dangers created by the situation in Afghanistan.²⁸

It looks as if for the next 3 or 4 years the key export route to Russia will remain the main one. Last year, Gazprom's price doubled, which means that it will remain stable in 2008.

The national policy of production modernization carried out by the state limited the flow of FDI into the most promising (oil-and-gas) sector, compared with the money invested in Kazakhstan and Azerbaijan. The "open doors" policy will make the ruling elite even richer than before. For this reason, we can expect that foreign investments will become one of the foreign policy tools.

²³ See: A. Dubnov, "Tri nedeli bez vozhdia. 'Sibir' otkroet dlia rossian Turkmeniu," *Izvestia*, 8 February, 2007.

²⁴ See: "Turkmenia: Ekolog Andrei Zatoka osvobozhden iz-pod strazhi," IA Ferghana.Ru, 31 January, 2007, available at [www.ferghana.ru].

²⁵ See: A. Grivach, "Trilliony neizvestnogo proiskhozhdenia. V Ashgabade soobshchili ob ocherednom neftegazovom gigante," *Vremia novostey*, 24 January, 2007.

²⁶ See: G. Gleason, "Turkmenistan after Turkmenbashi," *Eurasia.Net*, 23 December, 2006, available at [http://www.eurasianet.org/departments/insight/articles/eav122306.shtml]; A. Grivach, op. cit.

²⁷ See: A. Grivach, A. Dubnov, "Al'ians v obkhod Rossii. SShA pomogut Azerbaidzhanu lobbirovat Transkaspiskiy gazoprovod," *Vremia novostey*, 26 March, 2007.

²⁸ See: S. Akimbekov, op. cit., p. 24.

Possible Shifts in Ashghabad's Regional Politics

Russia and the Central Asian neighbors need domestic stability in Turkmenistan more than in any other country, therefore it appears likely that the new leaders, without the strong political positions of their predecessor, will drop the "positive neutrality" doctrine after a couple of years for the sake of membership in the SCO and later in the CSTO and EurAsEC.

The new leaders have the unsettled legal status of the Caspian on their hands, which means that a compromise should be found. Until the mid-1990s, the very complicated relations between Azerbaijan and Turkmenistan were a stumbling block. The new leaders in both countries might find fresh approaches to the old contradictions. Delimitation of the Southern Caspian, in which Iran should also be involved as one of the coastal states, would have eased the talks on the Caspian legal status.

So far, the future of the complicated relations between Ashghabad and Tashkent is vague. To avoid proliferation of Islamic extremism from Uzbekistan, the last president limited transborder relations with Turkmenistan's neighbor. The Amu Darya water resources breed even more contradictions. The rivalry of the region's two largest cotton producers over water, as well as implementation of large-scale hydro-technical facilities in Turkmenistan based on the water resources of the regions' main river, has already somewhat complicated bilateral relations. The Russia-China rivalry over Central Asian gas may intensify the Turkmenian-Uzbek rivalry over transportation capacities. The raid of the Turkmenian special services on the Uzbek embassy in Ashghabad in December 2002 and the accusation of its involvement in an attempted coup have not yet been forgotten.

Relations between Astana and Ashghabad might improve, especially if Turkmenistan joins the regional processes, something that the previous leader was not keen on. As an active supporter of multi-sided cooperation on post-Soviet territory, Kazakhstan will try to tempt the new Turkmenian leaders with the prospect of more active participation in regional cooperation.

There is an economic dimension to Astana's interest in closer cooperation with Ashghabad: the two countries can increase mutual trade, Turkmenistan can be invited to discuss increased supplies of trans-Caspian hydrocarbons; and it can open its market to Kazakhstan's investments in the financial and oil sectors. There is another important issue: the volume of Turkmenian gas moved across Kazakhstan to Russia (the traditional route) and to China (the prospective route) might increase. The two sides are resolved to achieve breakthroughs in bilateral cooperation: President Nazarbaev attended the inauguration on 14 February; the Minister of Energy and Mineral Resources of Kazakhstan B. Izmukhambetov visited Ashghabad in March 2007; there is an agreement for Kazakhstani Premier K. Masimov to visit Ashghabad in the next few months.

* * *

Turkmenistan will obviously not abandon President Niyazov's course in a hurry. We should not expect full-scale political liberalization, a multiparty system, or democratization in the near future. Stability is guaranteed by the military and law-enforcement structures represented in the State Security Council empowered to control all the other branches of power.

In the absence of direct foreign interference, the country will not threaten regional security, and its further domestic development will depend on the continued agreement within the ruling elite until the end of 2007. Much will depend on the new president.

In the mid-term perspective, the fulfilled election promises to liberalize certain aspects of social life may strengthen democratic trends. Increasing the role of private capital's role in the national econ-

omy may help to promote the trend further. At the same time, the partially lifted ban on access to information will contribute to strengthening civil society and extend the competitive sphere in the country's political expanse.

Ashghabad is unlikely to abandon its neutrality: it is needed in the context of the fairly complicated interrelations among Russia, America, and Iran in the region. It looks as though the country will drift toward China and the SCO in a couple of years and later toward the EurAsEC and CSTO.

On the whole, the situation remains suspended: the ruling elite might change its configuration to a great extent; the same applies to domestic policy, while the country's foreign policy leaves too little room for maneuver.

UZBEKISTAN: RAISING THE STATUS OF PUBLIC ASSOCIATIONS IN SOCIETY'S POLITICAL LIFE

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Today, one of the priority areas in enhancing the democratic participation of Uzbekistan's citizens in the country's development is raising the status and influence of public associations in the republic's sociopolitical life. This issue is closely associated with building a democratic state and civil society in our republic, ensuring the growing requirements and interests of different social groups, and raising the efficiency of the activity of the administration institutions. As we know, national (public) control did not suddenly appear out of nothing in Uzbekistan today, it has existed for several centuries, and even though it has not been systematically organized until now, it has nevertheless been a prerequisite of the activity of government bodies.

Society, various social groups, and like-minded people have always made demands on the country's rulers and expressed their attitude toward a particular problem; people would get into an argument, elders and influential figures would put forward their proposals, and then they would urge everyone to come to peace and harmony. There were various ways of putting pressure on the powers that be. The opinions and advice of elders, the works of scientists and writers, and the wishes of aksakals all served as a basis on which the rulers made particular decisions. As a well-known folk saying has it: "Most people have Hizr" (in this sense—wisdom, holiness). But it should be noted that control by society was not always welcomed and valued, during times of dependence, for example, it was a redundant phenomenon.

During the years of independence, opportunities appeared for creating and developing national and public control, measures were carried out for reforming the activity of public associa-

tions and renewing and raising their status and influence on the country's sociopolitical development, and several laws, decrees, and orders directly aimed at changing the activity of their organizations were drawn up and adopted. In particular, Chapter 17 of the Uzbekistan Constitution, Arts 73-75 of the Civil Code (1996), the laws On Nongovernmental Nonprofit Organizations (1999), On Trade Unions, Their Rights and Guarantees of Activity, On Production Manufacturers and Business Chambers (1992), On Religious Organizations and Freedom of Conscience (1998), On Public Funds (2003), and On the Foundations of State Youth Policy in the Republic of Uzbekistan (1991), decrees of the Uzbekistan President, and decisions of the country's Cabinet of Ministers set forth the most important rules and regulations for the reform and development of the activity of public associations.

A new system of public associations has been emerging since the republic acquired its sovereignty: the Federation of Trade Unions of the Republic of Uzbekistan, the Women's Committee, the Kamolot Public Youth Movement, the Association of Organizations of Veterans, the Republican International Cultural Center (RICC), the Public Center of Culture and Enlightenment, the Public Center for the Study of Public Opinion, the Associations of Scientists, Writers, Journalists, and so on. Such organizations as Makhallia, Soglom avlod uchun, Nuroniy, and so on, have also formed in this new system.

It should be noted that along with the transformation of traditional bureaucratic public associations, entirely new public (nongovernmental) bodies have formed during the years of independence that did not exist before in our society's political system. They now include various nongovernmental human rights organizations, the international organization, Ekosan, the Association of Business Women of Uzbekistan, the Uzbekistan Chamber of Industrial Commerce, and so on. A National Association of Nongovernmental Nonprofit Organizations was created, the task of which is to develop nongovernmental nonprofit organizations in the republic.

The number of nongovernmental organizations has been steadily rising. As of today, there are more than 5,000 nongovernmental nonprofit organizations functioning in Uzbekistan with different legal and organizational statuses. Four hundred and eighty-five of them have been registered with the Uzbekistan Ministry of Justice, while the Ministry of Justice of the Republic of Karakalpakstan and the departments of justice of Tashkent and regions have registered 4,814 local public associations.¹

During the years of independence, important steps have been taken toward reforming the structure and activity of public associations. This has inevitably yielded positive results. In this way, one of the most important achievements of independence has been the creation of an independent system of public associations.

An analysis of the charters and programs of the country's public associations showed that they were pursuing different interests, relying in so doing on different strata of society and citizen groups. They also encompass all spheres of social life in terms of areas of activity: sociopolitical, human rights, sports, environmental, charitable, cultural-enlightenment, professional, and so on. According to Professor A. Saidov, public associations in Uzbekistan can be divided into the following groups:

- First: national nongovernmental organizations expressing the interests of certain large categories of the population. They include the Makhallia Fund, the Uzbekistan Women's Committee, the Association of Invalids of the Republic of Uzbekistan, the Kamolot Youth Fund, the Nuroniy and Veteran funds.

¹ See: A. Saidov, "Legal Guarantee of Nonprofit Organization Activity—Demand of the Times," *Uzbekiston ovozi* (Voice of Uzbekistan), 27 December, 2005 (in Uzbek).

- Second: specialized national and international funds, such as Ekosan, Soglom avlod uchun, the Amir Temur Cultural-Historical Fund, the Democratization of the Press and Journalist Support Fund, the Aral Rescue Fund, the Forum of Cultural and Scientific Figures of the Central Asian States, and so on.
- Third: nongovernmental human rights organizations. For example, the Committee for the Protection of Personal Rights, the Center for the Study of Human Rights and Humanitarian Law.
- Fourth: national and public associations of the creative intelligentsia—writers, actors, artists, composers, architects, cinematographers, as well as judges and lawyers.
- Fifth: national cultural centers (more than 100). They are created for the purpose of preserving the cultural and linguistic traditions of the peoples (national minorities) living in the republic.
- Sixth: national charitable and other funds. These include children's funds, the Fund of Social Protection of Children—children brought up in children's homes, the Fund of Students of the Republic, and so on.
- Seventh: local associations related mainly to socially significant and creative interests—the environment, tourism, amateur art clubs, associations of parents of invalid children, and so on.
- Eighth: public associations—the Izhtimoiy fikr Public Center, the International Center for Training Journalists, and the Sabr Hotline Center, which provides psychological assistance to adolescents and women.²

This is not an exhaustive list. The republic's public associations should be divided in terms of size and type of activity into large and small, traditional and contemporary, in terms of status into rational and irrational, and in terms of formation sources into token and actual. The activity of token public associations is related to the state to a certain extent; they are financed by the government. Actual public associations act independently and finance themselves using their own funds. Token public associations claim to express the interests of specific groups or strata of the population, but in fact are lobbying state interests.

Let us take a more in-depth look at the activity of certain public associations in the republic.

Trade unions have undergone the most intense reform among the republic's public associations during the years of independence. They unite the representatives of different professions, regardless of nationality, gender, or religious belief on a voluntary basis. Their main goals are to improve the working conditions and provide improved cultural and recreational conditions for laborers.

The trade unions of Uzbekistan are considered the largest public associations, uniting more than 7.6 million citizens and approximately 53,000 primary units, which include both branch and territorial trade unions: of the Republic of Karakalpakstan, the 12 provinces, and Tashkent.

The organizational structure of trade unions are based on such generally accepted principles of the international trade union movement as federalism, democracy, independence, and voluntarism. All the trade union structures are elected at meetings, conferences, congresses of representatives and report to them.

Trade unions are formed according to production, branch, and territorial principles; branch and territorial trade unions unite as organization members into the Uzbekistan Federation of Trade Unions. Today, 15 branch trade unions and the Kizilkum nodir metallar—oltin union function in the republic.

² See: A. Saidov, "Civil Society and Political Reforms," *Mulokot* (Discussion), No. 5, 2000 (in Uzbek).

The Uzbekistan Federation of Trade Unions is building its activity on the basis of social partnership, in cooperation with state bodies and employers, on democratic standards.

One of the organizations that formed in the republic after it acquired its independence is the Uzbekistan Women's Committee registered with the Uzbekistan Ministry of Justice on 22 December, 1991.

The Uzbekistan Women's Committee is an independent body that unites all the women of Uzbekistan on a voluntary basis, regardless of their nationality, profession, religious convictions, and level of education, and fulfills the following tasks: raising the role of women in society, protecting their interests, satisfying spiritual-enlightenment requirements, rendering psychological, legal, socio-economic assistance, protecting the family, maternity, and childhood, and ensuring the participation of Uzbekistan's women in the movement for peace and democratic development.

The committee is comprised of the republican board, the boards of the Republic of Karakalpakstan, viloiats, and Tashkent, as well as representative offices in the cities and tumans (villages). In addition to them, women's committees function in all the organizations, at enterprises, in work collectives, and in the makhallia (village) committees.

The Uzbekistan Women's Committee is making its contribution to implementing the national Soglom avlod uchun program. It also drew up a joint program with such organizations as Makhallia, Navruz, Ekosan, and others. Along with the Makhallia Foundation and the Kamolot Public Movement, the Women's Committee takes active part in educating the republic's young people.

Numerous associations function under the committee in terms of professions and interests, in particular, the Association of Women Scholars.

The Women's Committee pays special attention to the activity of business women. As of today, there are more than 20,000 women in the country engaged in business, for them favorable conditions are created. Women—economists, lawyers, and creative workers—give consultations on legal and business questions, organize creative evenings and charity concerts, and make efforts to raise the legal culture of women.

During the years of independence, a public youth movement called Kamolot has been formed in the republic, and on 25 April, 2001, it renewed its activity.

Kamolot is a nongovernmental nonprofit organization, the tasks of which are to unite the young people of the republic, help to nurture a healthy lifestyle in them, and ensure comprehensive protection of their interests. It also helps young people to occupy a dignified place in society.

This organization believes an important area in its work to be creating the necessary conditions for young people to fully realize their intellectual potential and capabilities and channel their energy in the right direction, and it also serves as wellspring of support for the younger generation.³ The youth movement's program sets forth the priority goals of the organization's activity in the political-legal, spiritual-enlightenment, social, sports, and international spheres.

As of today, the Kamolot Public Youth Movement is regarded as a large public organization consisting of 14 viloiats, 199 city (regional), and 18,500 primary organizations. Of the 7.2 million young people between the ages of 14 and 28 in the republic, 4.7 million (or 65.3 percent) are its members.

The Central Council governs the youth movement. A monitoring and auditing commission functions in it. The movement's primary organizations have been created in all of the republic's learning institutions.

The Kamolot Public Youth Movement is carrying out various campaigns aimed at preventing negative phenomena among young people and helping them to cultivate communications skills and

³ See: *Programma i Ustav Obshchestvennogo dvizhenia molodezhi Respubliki Uzbekistan "Kamolot,"* Ukituvchi, Tashkent, 2001, pp. 6-7.

ways to freely express their own opinions and ideas. Youth problems are brought up and addressed within the framework of these campaigns.

The Nuroniy Veteran Social Support Foundation is a voluntary self-governed nongovernmental nonprofit charity organization of the republic's veterans. It was created in December 1996 by a Decree of the Uzbekistan President as the legal successor of the Republican Committee of Veterans and the Uzveteran Republican Association of War and Labor Veterans.

This foundation has set itself the following tasks—to promote the efficiency of social reforms conducted in the country and to ensure the social protection of elderly people. It also plays an important role in educating the upcoming generation. The organization actively participates in measures devoted to supporting war and labor veterans and invalids, and renders them medical and material assistance and moral support.

The organization of veterans has branches in the Republic of Karakalpakstan, as well as in all the viloiats and tumans of the country. Public Nuroniy Centers function at large enterprises and in the makhallia.

The Republican International Cultural Center was formed in our country during the years of independence and was created on a decision by the Uzbekistan Cabinet of Ministers of 13 January, 1992.

The RICC is considered an independent organization. It governs the national cultural centers, satisfies the demands of various national groups, and promotes the preservation and development of their native language, culture, and traditions.

The country's international cultural centers express the traditions of the numerically small ethnic groups (diaspora) living in the country. At present, the representatives of more than one hundred nationalities and ethnic groups live alongside the Uzbeks in Uzbekistan and constitute more than 20% of the republic's entire population. Based on this fact, today, there are 122 international cultural centers that occupy a dignified place among Uzbekistan's public associations.

The RICC is planning and carrying out its activity on the basis of recommendations of the Public Council, which is made up of the Center's leaders, the chairmen of the national cultural centers, representatives of organizations, departments, the public, and prominent scientists. The Uzbekistan National Unity movement was created in 1995 on the RICC's initiative, as well as on that of the national cultural centers. The RICC, along with the national cultural centers, the state, and public associations, is helping to execute the article of the Uzbekistan Constitution on the free development of the representatives of every nationality and the development of international relations in the country.⁴

The Izhtimoiy fikr Public Center was set up in 1997 and called upon to help intensify the democratic reforms, ensure human rights, and study the interests of citizens, society, and the state.

The center is a self-governed organization. Its main task is to monitor public opinion on questions regarding the government bodies' interaction with society, human rights, urgent socioeconomic problems, spiritual-enlightenment, and political-legal changes, and other important issues of social relations. It also aims to define people's world outlook, the main principles and processes forming their political, legal, economic, and moral consciousness, study the degree of political-legal culture of the population, and define the main trends in its development.

The Center's significance lies in the fact that it makes it possible to reveal all the diversity and complexity of the sociopolitical processes. It is also helping the ruling bodies to obtain reliable infor-

⁴ See: *Republic of Uzbekistan. Encyclopedic Reference*, the team of author: N. Tukhliev and A. Kremontsov, National Encyclopedia of Uzbekistan Publishers, Tashkent, 2002, pp. 229-241 (in Uzbek).

mation, assess the efficiency of governance, summarize the changes going on in society, and obtain the information necessary for studying the new trends.

The Ma'naviat va ma'rifat Republican Center was formed on 23 April, 1994 on a decree by the Uzbekistan President in order to raise the spirituality of the people, as well as form business skills among citizens. Public associations occupy a special place in ensuring employment of the population. They include the Association of Business Women of Uzbekistan, the Kamolot Youth Movement, and the Chamber of Manufacturers and Entrepreneurs. In 2000 alone, the Association of Business Women of Uzbekistan created conditions for 250 women to engage in business and professional activity by attracting grants and foreign investments into the country. The Kamolot Movement was able to provide 6,000 young people with jobs by holding special fairs, and another 2,000 were sent to advanced training courses. On the whole, in six years, the Kamolot Youth Movement resolved or found ways to resolve specific problems in 150,000 cases.⁵

At the same time, it cannot be said that the activity of public associations entirely meets all the demands today, and in this respect we very much lag behind the developed countries. Today, there are 17 nongovernmental organizations and public movements in Uzbekistan per 1 million residents, whereas in Sweden this index is 20 per 1 million members of the population. In this sense, we cannot agree with G. Khidoiatova, head of the NGO Law Training Center and OSCE international expert on human rights, that a civil society is not measured by the number of NGOs.⁶ The building of a democratic and civil society is determined not by the quantity, but by the quality of the activity of public associations, although the quantitative index is still important. The number of public associations should be proportional to civil society.

The public associations are finding it difficult to assimilate contemporary working methods under the new conditions. They do not have enough initiative, efficiency, or innovativeness in protecting public interests. This is particularly noticeable in traditional organizations, whose leaders prefer to group around the government structures. Some public associations believe they should blindly carry out the orders of the executive bodies. As a result, the rating of such associations among the population is going down, since people are losing their trust in them.

What is the reason for this dysfunction? In our opinion, it lies in the insufficient development of the legal base of the activity of public associations. In particular, this can be seen in the Constitution of the Republic of Uzbekistan, where the tasks and place of state government institutions in the life of society are quite extensively highlighted, but nothing is said about the independence and tasks of public associations. This approach can be called unilateral.

In recent years, much has been said about the need to develop a civil society and public associations in Uzbekistan. This should be evaluated as a positive trend, but very few serious practical steps have been made in this direction. In particular, the proposals put forward by Islam Karimov⁷ on making amendments to the Law on Public Associations and on the necessity for adopting laws On Social Foundations, and On Charitable Activity have still not been implemented. The Law on the Foundations of State Youth Policy in the Republic of Uzbekistan was adopted in 1991 and does not meet today's social needs.

The existing laws do not set forth mechanisms, means, forms, tools, and methods for public associations to have an impact on the government bodies, so it is more convenient for them to go along with the state executive bodies and not try to influence them.

⁵ See: *Uzbekistan k grazhdanskomu obshchestvu*, ed. by R. Alimov, Shark, Tashkent, 2003, 73 pp.

⁶ See: G. Khidoiatova, "Nastoiashchee grazhdanskoe obshchestvo ne izmeriaetsia kolichestvom NNO," *Turkiston*, 4 January, 2006.

⁷ See: I.A. Karimov, *Osnovnye napravleniia uglubleniia demokraticeskikh preobrazovanii i formirovaniia osnov grazhdanskogo obshchestva*, Uzbekiston, Tashkent, 2002, 25 pp.

Another obstacle on the path to the development of public associations is the fact they have no right to legislate,⁸ which makes them a target of the political system and prevents them from actively participating in the drawing up of drafts, laws, programs, and decisions. This is also having an impact on the effectiveness of the decisions made.

And finally, there is another serious obstacle in the development of public associations —the weakness and passivity of the general and special political education system.

Today not one of the republic's higher education institutions is offering training courses for people who want to work in civil society institutions and public associations. As a result, there is a low level of political knowledge among the members of these organizations, and throughout society as a whole. The results of research studies showed that every sixth businessman has no idea not only about the political system as a whole, but also about the existence of professional associations of businessmen in particular.⁹

The problems listed above are doubtlessly having a certain effect on the renewal and development of public associations in Uzbekistan.

How can the status and role of public associations be raised in public life?

In our opinion, this sphere requires just as much attention as state administration. The legal foundation for the activity of public associations should be seriously reviewed and improved from the viewpoint of clarifying their independent role and place in the political system and main tasks as an expression of the interests of social groups and strata of society. As Islam Karimov noted: "The more we intensify the state's control functions, the larger the number of controlling state bodies and structures, and the more the tyranny of officials and corruption will grow. So we are paying particular attention to increasing public control over the activity of the state, including over its power-related structures. There can be no other alternative in this question."¹⁰ This is precisely why the laws on public associations should set forth the mechanisms, means, and tools of this control and designate that the main tasks of public associations are to articulate and form aggregates of the interests of different strata of the population, study and assess their problems, and submit the latter in the form of demands, petitions, and programs for government bodies to review. The main task is to raise the political education and awareness of the population. Further, attention should be focused on raising the responsibility of public associations and obliging executive and legislative bodies of different levels not to make decisions without discussing the issue in advance with the public structures concerned.

Raising the status and influence of public associations is a high-priority task in intensifying civil control over government organizations. Public control is playing an important stabilizing role in the relations between citizens and the state, ensures their equilibrium, and prevents the state from applying too much pressure. This is the only way to ensure law and justice in practice.

⁸ See: *Delovaia sreda v Uzbekistane glazami predprinimatelei malogo i srednego biznesa. Po itogam 2003 g.*, Tashkent, 2004, p. 35.

⁹ See: *Ibidem*.

¹⁰ See: I.A. Karimov, *Uzbekistan—k velikomu budushchemu*, Uzbekiston, Tashkent, 1998, 555 pp.

REPUBLIC OF DAGHESTAN: ETHNOPOLITICAL AND ETHNOSOCIAL SITUATION AND THE RECENT CONFLICTS

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1. Ethnic and National Conflicts and How the Problems of the Peoples of Daghestan were Addressed in 1990-2000

Daghestan is a unique region of the Russian Federation: its past, culture, polyethnic and poly-confessional nature, climate and landscape, economic and demographic potential, as well as geostrategic and geographic location, set it apart from all the other regions of Russia.

Its specific nature and key role on Russia's southern borders have made it a special constituent of the Russian Federation.

By the beginning of the democratic changes, the Republic of Daghestan (RD) had accumulated a heavy load of ethnic contradictions and conflicts.

The Soviet policy of moving the highlanders down to the plains, which was carried out insistently and consistently, altered beyond repair the republic's ethnic composition, which became even more varied and culturally diverse in the plains. Kumyks, Nogays, Chechen-Akkinty, Azeris, and Russians, who formed compact ethnic groups, found themselves outnumbered by the newcomers (Avars, Darghins, Lakhs, and Lezghians). Tension between the old and new settlers and the latent conflicts between them were a natural result of the upturned balance.

The situation was aggravated by the high level of migration outside the republic (to other CIS countries and Russian regions), as well as inside the republic (from the mountains to the plains and back), which is typical of Daghestan and caused by the surplus (up to 25 percent) workforce. The republic has people living in it who have still not been rehabilitated or reinstated on their own territory: this applies to the Chechen-Akkinty and a large number of mountain-dwellers moved to Chechnia by force in 1944 and returned to their original place of residence in 1957. The assimilation policy regarding smaller ethnic groups was equally harmful.

While the Soviet Union was falling apart and the socioeconomic system undergoing radical changes, numerous hitherto suppressed local conflicts flared up to create new zones of confrontation and tension. Private life became less comfortable socially and politically, which forced people to keep within their ethnic groups and form ethnic public movements.

They became part of the republic's ethnopolitical context; more than that: they were more diverse than elsewhere: there were unitarian, separatist, ethno-confessional, nationalist, democratic, and other movements. Many of them consolidated on the ethno-corporate basis, a fact that spoke of politicized clans, tukhums, and social groups. All this created an ethnic paradox: internationalization of culture, on the one hand, and an obvious trend toward the national, on the other. The republic had 17 parties, 22 national and public political movements, 17 centers, and other associations.¹

The movements formed with humanitarian, educational, and cultural centers, which set themselves the aim of reviving the local cultures, tongues, and traditions, betrayed a trend toward politics at a very early stage. Some of the local nations even went as far as falsifying their histories and distorting the past.

The Chechen Republic, which brimmed with weapons and extremely aggressive armed groups that spent their time making inroads into other territories, presented the greatest hazard for the RD. These unfriendly actions incurred considerable material losses and destabilized the already shaky situation.

Criminals brought weapons and ammunition into Dagestan and sold their plundered wealth there, while all kinds of lawbreakers went into hiding in the republic. In 1993, people from Chechnia committed 223 offenses (23 murders), there were dozens of robberies and car thefts, and kidnapping was also practiced. In 1993, 120 railway carriages were completely plundered; 5,010 carriages and containers that crossed Chechnia arrived with traces of breaking and pilferage; agricultural machinery that traveled across Chechnia on 350 platforms lost some of their parts.²

The Kumyks and Lezghians demanded an autonomous status within the RD, which invited protests from other peoples. The years 1991-1992 were marked by a chain of sharp conflicts: the Avars and Chechens in the village of Leninaul (the Kazbek District) could not reach a consensus on a land issue; the Darghins and Kumyks in the village of Kostek clashed over land plots, while the Kumyks in the Khasaviurt zone went on a prolonged strike demanding the removal of all the heads of the law-enforcement structures; and Kumyk women staged a hunger strike on the central square in Makhachkala.

Dangerous incidents took place in all corners of the republic: in Derbent between Lezghians and Azeris, in Kizliar between Cossacks and the national movements of the mountain people, and in Kizliurt between the Avar national movement and the law-enforcement bodies.

The considerable industrial decline and increased pressure from criminal elements have been driving the Russians away from the republic.

On 24 October, 1992, the first forum of the Congress of the Peoples of Dagestan, attended by representatives of 42 public and political associations and national movements, demanded that each of the over 30 nationalities and ethnic groups should have the right to achieve self-determination and set up a federative republic in Dagestan.³ This was a time when the destructive pressure of social movements was on the increase; the movements of the Chechen-Akkinty (Nokhchi) and Kumyks (Tanglik) were the most active in this respect. Some of the local Chechen-Akkinty called themselves citizens of the Chechen Republic. Despite the fact that the Congress of People's Deputies of Dagestan passed a decision on the territorial rehabilitation of the Chechen-Akkinty by moving the Lakhs away from the Novolakskoe District and restoring the Aukhovo District, the Chechen-Akkinty called

¹ See: K.M. Tsagolov, *Dokladnaia zapiska pravitel'stvu RF*, Tekushchiiy arkhiv Minnatsinformvnesheivsvyazi RD, Makhachkala, 1998, p. 5.

² *Ibidem*.

³ See: *Kongress narodov Dagestana*, Makhachkala, 2000, p. 6.

for rallies and went on strike to demand immediate implementation of the Congress' decision, which was obviously impossible.

In 1992 and 1993, criminal groups used arms against law-enforcement bodies 15 times; on seven occasions officials of the Ministry of the Interior, Procurator's Office, and of a military registration and an enlistment office were taken hostage; and four times criminals captured administrative buildings. In April-May 1992, similar clashes took place in Kiziliurt and Makhachkala, during which officials of law-enforcement bodies were taken hostage.⁴

The Presidium of the RD Supreme Soviet had to declare a state of emergency in the Kazbek and Khasaviurt districts and the city of Kiziliurt.⁵

On 13-14 December, 1992, Makhachkala hosted a congress of the peoples of Daghestan, which confirmed three key principles (later they were registered in the RD Constitution: (1) Daghestan is a single and indivisible unit; (2) Daghestan is part of Russia; (3) all peoples have their problems, the solution to which should take into account the interests of all Daghestanis. They were supported by the absolute majority of the republic's population, irrespective of political convictions and ethnic or religious affiliation.⁶

At the trying time when ethnic contradictions reached their peak, social and political stabilization could be achieved solely through peaceful negotiations and consensus-based settlements. Prof. A. Matsnev correctly pointed out: "No stability in the Russian state will be possible if we fail to settle ethnic conflicts and learn how to settle them in a civilized way."⁷ He has also said that "pure" ethnopolitical conflicts are rare, whereas the ethnic component per se is often present in many conflicts, while its potential travels from one conflict to another.⁸ This was what happened in Daghestan: the conflicts that started as socioeconomic, later developed into ethnopolitical clashes.

At that time, the state structures and public were doing what they could to defuse the tension.

Over time it became clear that the republic needed consistent ethnic policies that would take into account the interests and requirements of all the peoples for the sake of civil peace, political stability, and unity. The Comprehensive Program of Dealing with the Problems of National Relations in the Republic of Daghestan, which the Presidium of the RD Supreme Soviet adopted on 28 June, 1993, served precisely these aims.

In this context, the following measures were taken to address the problems of:

(a) The Chechen-Akkinty as a Repressed People

On 23 June, 1991, the Third Congress of the People's Deputies of Daghestan passed a decision on the territorial rehabilitation of the Chechen-Akkinty. With this aim in view, it was decided to resettle those Lakhs who lived on formerly Chechen territory. The decision required a lot of preliminary work and the consent of the Lakhs of the Novolakskoe District. This is the only case in Russia when repressed people restored their right to live on their former territory. The RD government set up organizational committees to explain the situation to the local people, restore the annulled Aukhovo District, and resettle people from the Novolakskoe District. This required coordination, which was carried out by a department under the RD Council of Ministers; the Lakhs of the Novolakskoe District were moved to a new place of residence north of Makhachkala.⁹

⁴ See: K.M. Tsagolov, op. cit.

⁵ See: *Respublika Daghestan: sovremennye problemy natsional'nykh otosheniy*, Makhachkala, 1995, pp. 48, 102.

⁶ Ibid., pp. 69-70.

⁷ *Osnovy natsional'nykh i federativnykh otosheniy*. Textbook, ed. by R.G. Abdulatipov, Moscow, 2001, pp. 241, 243.

⁸ Ibidem.

⁹ See: *Respublika Daghestan: sovremennye problemy natsional'nykh otosheniy*, p. 171.

(b) The "Divided Peoples"

The authorities of the republic did not succumb to the temptation to declare independence, which could have caused a lot of concern among the republic's ethnic groups and nationalities divided by state (Azerbaijan and Georgia) or administrative (Stavropol Territory and Chechnia) borders.

On 29 June, 1993, at the request of the Lezghians living in several settlements of the Akhty District, the RD Supreme Soviet formed the Dokuzpara District, which gathered the Lezghian settlements into a new administrative unit.¹⁰ On 15 January, 1992, the Supreme Soviet of the Daghestanian S.S.R. approved a plan of cooperation between the Republic of Azerbaijan (RA) and the Republic of Daghestan in meeting the needs and requirements of the Lezghian and Avar population of Azerbaijan and the Azeris in Daghestan.¹¹

In fulfillment of Decision No. 1151 of the Government of the Russian Federation of 10 September, 1997 On Urgent Measures to Stabilize and Develop the Economy of the Republic of Daghestan, the republican government drew up an intergovernmental agreement On Cooperation in the Border Areas of the Russian Federation and the Republic of Azerbaijan and coordinated it with all the corresponding federal ministries and departments.

In April 1998, the Government of Russia adopted a Plan of Measures Designed to Extend Ethnic and Cultural Support to the Diaspora of the Peoples of Daghestan in the Republic of Azerbaijan and the Azeri Diaspora in the Republic of Daghestan.¹²

(c) The Russian Population

The issue has several aspects to be taken into account. From the political point of view, the Russians and Russia are helping the republic to move toward fast, sustainable, and secure development in all spheres. There is a moral side too: most Russians came to the republic to promote its economic and cultural revival and made an immense contribution to this cause. Prof. R. Magomedov, the patriarch of historical science in the Republic of Daghestan, has the following to say on this score: "As part of Russia Daghestan was absolutely secure; during these years, Daghestan developed and adjusted to contemporary forms of life. We should always remember that those Russians who lived among us played an integrating and balancing role; they promoted closer relations among our peoples and stabilization of our society. Can we forget about this when looking ahead?"¹³

There is an economic aspect as well: the republic is closely connected with the Stavropol and Krasnodar Territories and the Rostov Region. It would be wise to adopt a special program that encourages Russians to remain in the republic.

From the ethnocultural viewpoint, the Russians should be convinced to continue living in the republic and friendly relations should be preserved between them and the Daghestani peoples. The Russian language is used not only to speak to other nationalities: many of the local people regard Russian as their native tongue; the younger generation of creative intelligentsia uses Russian as well. The state structures believe it to be one of their tasks to prevent an outflow of Russian speakers from the republic; they are taking practical measures to defuse the tension that is driving Russian speakers away from Daghestan in the first place. A Governmental Commission has been set up to deal with the problems of Russian speakers.¹⁴

¹⁰ See: *Respublika Daghestan: sovremennye problemy natsional'nykh otnosheniy*, p. 134.

¹¹ *Ibid.*, p. 46.

¹² See: Tekushchiy arkhiv Minnatsinformvneshevsviazi.

¹³ *Sovremennoe sostoianie i perspektivy razvitiya istoricheskoy nauki Daghestana i Severnogo Kavkaza*, Makhachkala, 1997, p. 9.

¹⁴ See: *Problemy russkogo i russkoiazynchnogo naseleniya respubliky Daghestan*, Makhachkala, 1996, p. 49.

(d) The Kumyks

With respect to the Kumyks, the parliament's decision to provide the land-hungry Kumyk settlements with additional land plots in the mountains played a very important role. Those who lived in the Makhachkala suburbs (Tarki, Alburikent, and Kiakhulay) and who were settled in 1944 on the land of the deported Chechen-Akkinty in the Khasaviurt District received large plots for building houses in their new places of residence.

To stem or, at least, limit migration and resettlement from the mountains to the plains, as well as to smooth out certain socioeconomic discrepancies, more money was poured into the conflict-prone districts; three new programs—The Mountains, Revival, and The South—were adopted. The Kumyk settlements of the Kiziliurt District and some of the Kumyk administrative territorial units of the Buynaksk District were united into the Kumtorkala District.¹⁵ On 22 March, 1993, the Presidium of the Supreme Soviet of the RD passed a decree On Setting up the Novokostek Village Soviet in the Khasaviurt District. This was done to alleviate tension between the Darghins and the Kumyks over land within the Kostek Village Soviet.¹⁶

(e) National Minorities

Much was done to preserve the cultural and ethnic space of the divided peoples and to enhance the status of numerically small peoples, as well as realize the principle of equal representation of all ethnic groups in the state power structures. Three national minorities (Aguls, Rutuls, and Tsakhurs) acquired written languages. All fourteen ethnoses of Daghestan with written languages of their own were equally represented in the State Council and proportionally represented in the RD People's Assembly. The State Council and the government of Daghestan founded the republican newspapers *Vestnik Agula* (in the Agul language) and *Vatan* (in the Tat language).¹⁷

(f) The Nogays

Instead of one, the Nogays received two constituencies to elect their representatives to the RD People's Assembly. Under the Federal Law of the Russian Federation on the National-Cultural Autonomy, the national-cultural autonomy of the Nogay people with its governing structure appeared in the Nogay District of Daghestan.¹⁸

(g) Autonomization of Daghestan

Sooner or later everyone finally agreed that the republic's population is too ethnically diverse and mingled to set up national-territorial units on its territory.

Had this idea been realized, the republic could have been called not only a "mountain of languages," but also a "mountain of divided peoples." Only 19 percent of the Lakhs, for example, still live in their historical homeland in the Lakh and Kulin districts (60 percent of them are city dwellers);

¹⁵ See: *Respublika Daghestan: sovremennye problemy natsional'nykh otosheniy*, p. 8.

¹⁶ *Ibidem*.

¹⁷ *Ibid.*, p. 106.

¹⁸ See: *Molodezh Daghestana*, No. 46, 2004.

21 percent of the Lakhs live elsewhere in the republic. If a Lakh District were set up, it would unite only 19 percent of this ethnic group, while 81 percent would continue living outside it, in nine or ten areas. Such an arrangement can hardly be called an autonomy; it would serve no positive purpose.¹⁹

There is a political side to the problem: in the proposed autonomies, most people would be deprived of their political rights: national constituencies would inevitably acquire an ethnically homogeneous political elite. In fact, this is the main idea behind the project, which means that all other nationalities would suffer—self-determination would develop into self-isolation and ethnic struggle.

(h) Political Reform

The changes and the republic's domestic and very specific political system that eventually took shape fit the society's social and political structure. A State Council was formed consisting of fourteen members, who represented the fourteen officially registered nationalities. It was the highest executive and representative body. The parliament, the RD People's Assembly of 121 deputies, in which all fourteen nationalities were proportionally represented, was elected by universal vote. The prime minister became first deputy chairman of the State Council.

This system functioned successfully and helped address the following key tasks:

- suppression of separatism and prevention of the republic's division;
- liquidation of the causes behind mass ethnic conflicts and ethnic purges;
- encouraging political will of not being drawn into border conflicts with neighbors;
- prevention of any serious movement to effect separation from Russia;
- prevention of Islamists' more or less strong influence on political decision-making even though the religious (Islamic) factor remained prominent.²⁰

The decision to set up an RD Ministry of Nationalities and Foreign Relations was one of the most important legislative acts in the ethnic sphere. The two functions were combined in one ministry because the widespread Daghestanian diaspora called for contacts with other constituents of the Russian Federation and CIS countries. Under Decree No.137 of 19 June, 1996 of the RD State Council On the Coordinating Role of the Ministry of Nationalities and Foreign Relations in Carrying out a Single Foreign Economic Policy of the Republic of Daghestan, the ministry's functions were extended.²¹

2. Ethnopolitical and Ethnosocial Situation and Conflicts after 2000

The wave of ethnic conflicts that engulfed the republic in the early 1990s (which were not typical of the republic anyway) soon subsided. Conflicts gradually disappeared from the political scene; however, those who were invited to join the elites in exchange for abandoning confrontational stands remained at the helm of the republic's politics and economy.

¹⁹ The authors' calculations are based on the 1989 census data.

²⁰ See: E.F. Kisriev, "Soprotivlenie sistemy politicheskikh institutov Daghestana protsessu sozdania edinogo pravovogo prostranstva v Rossii," in: *Federalizm v Rossii*, Kazan, 2001, pp. 123-143.

²¹ See: *V interesakh narodov Daghestana*, Machachkala, 2003, p. 3.

Society as a whole was not less conflict-prone: several confrontations of the past remained unresolved, while others became exacerbated. New conflicts (rooted in the past), this time of a sociopolitical nature, arose within the ethnic groups. The government and society with their conflicting interests were both guilty of this.

What bred the new conflicts? Why were there more conflicts? Why did they become even more variegated? According to the studies the RD Ministry for Nationalities, Information, and Foreign Relations carried out in 2005—the first half of 2006 in the municipal units, there were 47 conflicts: over land—29; social—7; political—3; ethnic—2; economic—1, domestic—1. The conflicts became more complex: they developed from simple appeals to the authorities into picketing administrative buildings and from rallies and road blocks into legal action in local courts and in the European Court in Strasbourg. Many of the conflicts have been going on for years.

We have classified the recent conflicts in the following way: conflicts connected with the rehabilitation of the repressed Chechen-Akkinty; rehabilitation of forcibly displaced persons; religious confrontation; and generation conflicts.

Rehabilitation of the Chechen-Akkinty

On 23 June, 1991, the Congress of People's Deputies of Daghestan passed a Regulation on Rehabilitation of the Repressed Peoples in execution of the Law of the R.S.F.S.R. of 26 April, 1991 of the same name. Under Para 3.1 of the republican document, there were plans to move the Lakhs of the Novolakskoe District elsewhere from the territory of the former Aukhovo District (from which the Chechen-Akkinty were evicted in 1944).

At the same time, the congress instructed the Supreme Soviet to pass a law on forcibly displaced peoples and set a time-table for later resettlements: in 1991-1992, the former Aukhovo District was to be restored and its settlements returned their old names; the Lakhs were to be moved before 1996, while the Chechen-Akkinty were to be returned to their former villages at the same time. This has not been done yet: there is no Aukhovo District, while the settlements still bear their new names.

This happened because the Law on Rehabilitation of the Repressed Peoples was not an act of historical justice in relation to the repressed peoples: it was the product of a haggle between a group of Checheno-Ingushetian deputies and Boris Yeltsin's team over deputy support when Yeltsin ran for Chairman of the Supreme Soviet of the R.S.F.S.R.²²

The law presupposed political, legal, and territorial rehabilitation, but the latter contradicted the Constitution of the R.S.F.S.R. In fact, those who passed the law failed to take into account the inevitable ethnic complications in the Northern Caucasus. Very soon the R.S.F.S.R. Supreme Soviet had to suspend its own decision regarding territorial rehabilitation.

In Daghestan, however, territorial rehabilitation of the Chechen-Akkinty was never suspended; the republic tried but failed to fulfill the decisions of its Supreme Soviet. Why did this happen? The sums allocated for moving the Lakhs from the Novolakskoe District were too small to speed up the process. It also proved hard to restore the Aukhovo District within its former boundaries—the Avar settlements of the Kazbek District refused to join the Aukhovo District. The federal center, in turn, never bothered about adopting a law on the deported nationalities.

The leaders of Daghestan were firm in their resolve to succeed in rehabilitating the Chechen-Akkinty. President Mukhu Aliev pointed out that the smoldering conflict could not be left untended; it was thanks to him that a decision was made to allocate 433 million rubles from the federal budget

²² See: V.D. Dzidzoev, *Kavkaz kontsa XX veka: tendentsii etnopoliticheskogo razvitiia (istoriko-politicheskoe issledovanie)*, The Vladikavkaz Scientific Center, RAS RSOA, Vladikavklaz, 2004, p. 146.

for building houses for Lakhs in 2007. The deported nationalities issue, however, cannot be settled once and for all without a corresponding federal law.

We wonder why the Chechen-Akkinty were not immediately returned to the Aukhovo District in the same way that other Chechen groups were reinstated when the Chechen-Ingush republic was restored? According to M. Abuev, former first deputy chairman of the Council of Ministers of D.A.S.S.R. and bureau member of the C.P.S.U. Daghestanian Regional Committee, it was the C.P.S.U. Central Committee that recommended not to return the Akkinty to the Aukhovo District, but offer them land elsewhere. They were given land in the Khasaviurt District and the town of Khasaviurt, close to the Novolakskoe District. The Akkinty, however, proved obstinate. Under the pressure of their incessant demands to be moved back to their historical homeland, the leaders of Daghestan obtained the consent of both nationalities to swap territories. The C.C. C.P.S.U. interfered once more: it was dead set against a solution that might serve as a precedent in another place: the Prigorodniy District in North Ossetia, where people from South Ossetia settled in 1944. It was obviously impossible to move them back to Georgia, where they lived before 1944.

Religious Conflicts

At the end of 2006, President of Daghestan Mukhu Aliev summed up all the steps taken to oppose religious extremism: in 2005, the republic fell victim to 47 terrorist acts, in 2006, it lived through 16 acts of terror (a drop of 60 percent); and 36 fighters laid down arms. The president described the sources of terror in the following way: "The main causes are the appalling social and economic conditions and unemployment." Despite a spectacular drop in the number of terrorist acts, the president warned: "Terrorism has come to the Northern Caucasus, Daghestan, and Russia to stay."²³

The growing number of mosques (from 27 in Soviet times to the present 1,786), as well as numerous religious institutes and schools, has done nothing to improve the moral standards in Daghestan. The local ethnic groups set up numerous conflicting national movements, even though the republic shares Islam as the religion of the majority. This means that social and ethnic relations come first, while religion is trailing behind.

Confrontations between Sunnis and Shi'a (triggered by religious postulates and the religious literature market) are a more or less recent development; before that local Islam stood opposed to Wahhabism. In the Akhtyn District, the supporters and opponents of the Spiritual Administration of the Muslims of Daghestan cannot agree on certain issues, while in the Shamkhal settlement, different groups of believers do not see eye to eye on certain Islamic dogmas.

There is no agreement on why Wahhabism spreads in the republic: some people say that it is a religion of unemployed young people, while others argue that it attracts the smartest and the wealthier part of the younger generation, the potential of which remains unclaimed by the state. Unwilling to follow the usual road to the top through bribes and nepotism they prefer armed struggle. There is another opinion—young people are rejecting capitalism and social differentiation. They are taking up arms to fight for social justice as one of the Islamic principles. Some people regard terror as a form of struggle of the weak against the strong.

The traditional clerics object to the term "religious extremism:" religion, they argue, has nothing to do with extremism.

The government and academic community have different opinions about religion as a stabilizing factor. The government accepts compromises and alliances with the loyal part of the faithful, which is wise: traditional religion and the government have joined forces in the struggle against Wahhabism.

²³ *Daghestanskaia pravda*, No. 333, 2006.

The traditional clergy, at the same time, spares no ideological effort to prove that a Shari'a state is better than a secular one. Here is an example from the past: when Imam Shamil launched his anti-colonial struggle in the 19th century the Sufis, concerned about moving closer to Allah, became the most consistent warriors of jihad. This means that the position of all the religious trends is determined by socioeconomic and political reality. This is how the academic community interprets Shamil and his struggle, while specific assessments in specific situations depend on the interests of society. From this point of view, traditional Islam is the only correct and justified form of Islam.

Conflicts inside ethnic groups, a relatively novel phenomenon, stem from social contradictions. In fact, they are rooted in the first post-Soviet period when property was snatched or given away right and left, while the public remained a passive onlooker. The theory of a "social state" (Art 7 of the Constitution of the Russian Federation) has failed: recent years have seen an active onslaught against the rights and interests of the ordinary people at the municipal level. This is particularly true of land relations, financial machinations, privatization, and falsification of the election results.

The land issue has already stirred up unrest in the Kumtorkala, Kazbek, Dokuzpara, Magaramkent, Tabasaran, Khivsk, Untsukul, Tsumada, Kizliar, Derbent, and Lakh districts and in the cities of Kaspiysk and Makhachkala.

In the Kumtorkala District, for example, the local administration head "transferred" 400 hectares of the best agricultural land to the non-agricultural category in violation of all the laws; the plots were sold as construction sites to people from the capital; the locals were left out in the cold.²⁴

In fact, this has become a habit with the local authorities: in the Derbent District, the local people complained that businessmen from Moscow and other big cities buy up vast areas of land to build what can be described as nothing short of mansions. In most cases, these mansions stand empty, while the local people cannot obtain a decent plot of land to grow vegetables or build a house.²⁵ This is happening everywhere. In 2006, 40 criminal cases of this sort were investigated in the Untsukul District alone.

The local administrators respond with protest actions of their own, staged with the help of people employed by state-financed organizations accountable to the local authorities who, in turn, spare no effort to laud the local heads to the skies.

Recently the republic had a taste of another type of conflict inside the departments. On 18 February, 2007, militiamen of the patrol service gathered once more for a rally to demand higher wages. They accused the militia bosses of corruption: employment and promotion allegedly depended on fixed bribes.²⁶

The Diaspora's Double Role

The Daghestani peoples are always on the move because of the surplus labor force at home. People from Daghestan are scattered across nearly all of Russia's Federation constituents and other CIS countries. The diaspora is over 400,000-strong. Recently its situation changed dramatically: at the early stage of the market reforms, the migrant workers competed with the locals for jobs, which naturally ended in conflicts and clashes over trivial matters. Later, when the most mobile part of the population joined the diaspora, the situation changed a great deal. In an alien ethnic milieu, any diaspora is economically much more active than the local people. The local state and municipal structures might try to keep it within certain limits. In our case, however, these institutions, already corrupted by the market

²⁴ See: *Chernovik*, No. 46, 2006.

²⁵ RVGK. Aktsenty TV program, 26 June, 2006.

²⁶ RVGK Vesti Daghestana TV Program, 18 February, 2007.

reforms, permitted the newcomers to enter the most attractive economic segments. There are millionaires and even billionaires in the Daghestani diaspora; seven of them sit in the State Duma, which speaks of the diaspora's immense clout outside the republic.

Some of the local people, who found themselves on the poorer side of the already split society, think nothing good of the diaspora. In fact, this has become a delayed action bomb which might explode at any moment. On many occasions, it was people from Daghestan who provoked such explosions: in 2006-2007, there were clashes that claimed the lives of Daghestanis and local people and insistent demands to deport the unwelcome guests. This happened twice in the Republic of Kalmykia, in the city of Salsk (Rostov Region) and in the Astrakhan Region.²⁷

It should be said that there are Daghestanis who fill high posts in the Federation constituents and in Moscow and enjoy the respect and trust of all who know them. The most active members of the diaspora are involved in local cultural developments, while all the members can count on all-round support. This is especially true of the Moscow mayor's office and the Ministry of Culture and National Relations of the Republic of Bashkortostan.

The leaders of Daghestan, in turn, are trying to maintain regular contacts with the diaspora members scattered across the country for the sake of their peaceful coexistence with the local societies. The Ministry for Nationalities, Information, and Foreign Relations has offices in all the constituents of the Russian Federation. In 2004 and 2005, their representatives met in Makhachkala.

President of Daghestan Mukhu Aliev came to Moscow to persuade Daghestani businessmen to invest their money in their native republic. Some of them have already registered their businesses in Daghestan.²⁸ The representative offices, meanwhile, do not spare any effort to establish trade contacts with the RD. This shows that while in the past the diaspora relieved part of the unemployment pressure at home, today it has gained considerable economic and political weight to start the economic revival of the Republic of Daghestan by strengthening its contacts with its native land.

National Minorities: Self-Identification of Small Ethnic Groups

It is a well-known fact that the Ando-Tsezian peoples of Daghestan were not mentioned in any of the population censuses after 1926—they identified themselves with the Avars. In the 2002 population census, the numerically largest of the small ethnic groups (Andiis, Akhvakhts, Tsezes, Bezhtins, and Karatins) identified themselves as small ethnic groups. There is a frequently voiced opinion that the true ethnic identity of the Ando-Tsezian people was sacrificed to the ambitions of the local career-minded politicians. The numerically small ethnic groups were deprived of education in their native languages; without the status of an ethnic group they had no chance of being represented in power structures. Recently, however, they have developed an avid interest in the past of their villages; books and newspapers in their native languages are being published; nearly all such groups have formed closely-knit monoethnic communities in Makhachkala. Today, ethnic affiliation has obviously become a trump card for unification and mobilization.

The question is why are all these problems starting now? There are three reasons.

1. Under the Constitution of the Republic of Daghestan of 1997, fourteen nationalities are represented in the State Council and the parliament (the Aguls, Tsakhurs, and Rutuls are smaller than some of the Ando-Tsezian ethnic groups). This was regarded as an insult, which caused a grudge.

²⁷ See: *Nezavisimaia gazeta*, 17 January, 2007; *Rossiiskaia gazeta*, No. 244, 2006, *Chernovik*, No. 28, 2006.

²⁸ See: *Molodezh Daghestana*, No. 38, 2006.

2. In 1999, the State Duma passed a Law on the Guarantees of the Rights of Indigenous Small Peoples of Russia, which admitted that expansion into the traditional territories of the numerically small nationalities had pushed them to the brink of extinction. The law outlined the measures designed to protect the territories of small ethnic groups against invasions and promote their progress, culture, and languages. The small nationalities of Daghestan expected privileges, but it turned out that the law was not applied in the republic. The small nationalities never experienced territorial invasion; the groups engaged in pasturing were given winter grazing grounds. This explains why the republic did not pass a similar law.

The issue of education in the native language dates back to the early 1930s when primary education became general, a decision that created an issue for the numerically small nationalities. At that time, even larger ethnic groups had no stable alphabets; there were no teachers capable of teaching the native tongues either. In the 1950s-1960s, about 18,000 teachers from other regions were dispatched to Daghestan. In these conditions, the central authorities instructed the republic to use kindred tongues to teach the smaller nationalities. Today there are dictionaries in nearly all the languages of the numerically small nationalities that have acquired alphabets, thanks to the Institute of Language, Literature, and Art of the Daghestanian Scientific Center, RAS. The small nationalities can finally be educated in their native tongues.

3. The above can be described as two provoking factors—the large intelligentsia of the numerically small peoples is the real reason for the revived problem: the best educated part of society inevitably complicates ethnic-related issues. This is especially true of Daghestan, where the national factor plays an important role in public life and politics: the emerging supra-national community cannot downplay the carefully preserved ethnic identity.

It is a well-known fact that if individual nationalities of a multi-national community formulate new ethnic demands, they should be studied and satisfied. In our case, it seems wise to call a conference of the Ando-Tsezian peoples to discuss all the issues in detail. In the absence of an agreement among the numerically small nationalities themselves, it is even more advisable to clarify the various viewpoints.

The Elite-Society Conflict

The conflict between the elite and society is more destructive than the other conflicts.

Ideally, the elite is supposed to be the best part of society, its most active and leading part, ensuring reasonable and effective administration. Life and ideals are two different things. The new Daghestani elite is a counter-elite of sorts—it is corrupt, criminal, and loves luxury. Its members prefer to keep business within their own clans.

The large part of the elite has its own “shadow” businesses and indulges in tax evasion. Speaking in Khasaviurt, President Mukhu Aliiev pointed out that the city’s business community is ten times larger than that of Iuzhno-Sukhokumsk, which paid more taxes.²⁹ There are any number of markets in Daghestan, the owners of which prefer to remain unknown so as to evade taxes.³⁰

The new Daghestani elite quickly mastered the Western lifestyle; it has become a self-contained community with a lot of privatized property. It is indifferent to the rest of the people, which it treats like a crowd of voters. There is sharp confrontation between the elite and society.

²⁹ See: *Novoe delo*, No. 50, 2006.

³⁰ *Ibid.*, No. 4, 2007.

The Generation Conflict

This is an eternal phenomenon. The older generation regards the younger as lazy, idle, immoral, and non-patriotic. The younger generation accuses the older of conservatism, backwardness, etc. Later it turns out that the “bad younger” generation grows into the “good older” generation and the story repeats itself. Today, young people live under very different conditions, which explains their behavior.

In Daghestan, the generation conflict goes much deeper than the ordinary conflict—it bears the stamp of an era of crisis. Corruption accompanies the rising generation from kindergarten to school, in higher educational establishments and at work. They have learned to tolerate violence, drugs, and excessive drinking. One cannot expect effective administration from them.

Perestroika and the transfer to the market crippled the mentality of the rising generation; disrespect of parents and elderly people has become the norm. Instances where grandchildren murder their grandparents have become common. Before the era of social change, such things were unheard of in Daghestan; no one could have even imagined them. The generation gap can be remedied only if its cause, the social crisis, is removed.

The above means that the problems of Daghestan’s national progress, its economy, and its culture are multiplying, therefore the tasks of coordinating national and regional development remain on the agenda. It is becoming increasingly clear that the federal center should be more closely involved in the process.