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POLICY BRIEF

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China's Pursuit of Power in Central Asia

by Niva Yau

EXECUTIVE SUMMARY

Each Chinese administration since 1991 has showed different styles of engagement with Central Asia. While the significance of Central Asia has remained largely unchanged, these policy differences under each Chinese administration have been led by domestic drivers of foreign policy. Under the Jiang administration, policy towards Central Asia reacted to weak international bargaining power coupled with a Soviet-influenced Chinese government. This has resulted in a careful, impactful policy on the ground. Driven by the Chinese economic miracle, the Hu administration implemented various strategies to bring closer the Chinese and Central Asian economies. For the Xi administration, an ideologically driven foreign policy in Central Asia has failed to pursue a clear actionable policy in the region compared to previous administrations. China-Central Asia relations post-COVID19 will be largely driven by how quickly the Chinese economy recovers, when financing becomes available to kick-start Xi's Belt and Road Initiative. The key to the argument in this policy brief is that analytical examination of Chinese foreign policy in Central Asia (and elsewhere) must in the first instance take into account China's domestic factors given their capacity to influence actions of the Chinese Communist Party. This theoretical ground subsequently offers policy recommendations for leaders of Central Asian states in understanding and working with China's pursuit in the region.

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Introduction

The Chinese Communist Party's pursuit of regional hegemonic power in Asia has never excluded Central Asia. Leaders in Beijing read history well. For thousands of years, Central Asia have always been one of the key factors behind the declines and rises of Chinese civilisation. Multiple Chinese dynasties were driven to bankruptcy due to the never-ending wars with the people of Central Asia. This deep historical memory serves as one of the key reminders of Central Asia's strategic importance to China. Since Central Asia's independence, the Chinese Communist Party has begun a pursuit of power in Central Asia.

This article breaks down three phases of China's Central Asia policy under each Chinese administration since 1991. Paying attention to the context of each period, this article highlights the inward-looking, domestic nature of China's Central Asia policy. Against this theoretical background, this article concludes with relevant policy recommendations for Central Asian states.

The Jiang Administration (1989 – 2002)

Central Asia's independence came as a shock to Chinese leaders. The Chinese Communist party had never planned for a scenario with an independent Central Asia (Xing, 1996, p.17). Occupied by immense pressure dealing with the West in the aftermath of the Tiananmen Square incident in 1989, China rushed to craft a quick policy on Central Asia. With virtually no contacts in Central Asia, the Jiang administration, occupied mostly by fluent Russian-speaking Soviet educated officials like Jiang himself, was first and foremost cautious of Russia's absolute intention to continue a form of Soviet legacy in Central Asia. At the same time, there was a consensus amongst

leaders in Beijing that asserting Chinese influence in Central Asia is strategically important on many fronts. With this in mind, China's early policy on Central Asia was basic at a surface level, directed at solving immediate bilateral problems but was carefully thought-out after 1994 to build a foundation for greater Chinese influence in the region.

The main goal in Central Asia under the Jiang administration was to support the rise of individual Central Asian leaders in an effort to induce a larger sense of independence from Russia. Generous loans were hand delivered to Central Asian leaders, when then-Premier Li was already talking about reviving the old Silk Road, bringing to bilateral meetings group after group of Chinese entrepreneurs (Yau, 2020, p.2). Firstly, cultivating an independent group of Central Asian leaders is needed to ensure strong regional willingness against the separatist movement in Xinjiang. Chinese leaders in Beijing considered Central Asian unity as an immediate need to manage the conflict at a local level. Given years of Soviet support for the Uyghur uprising, China needed a collective, regional effort to disintegrate networks of East Turkestan scattered around Central Asia.

A success, the establishment of the Shanghai Cooperation Organization (SCO) in 2001 was a necessity for Chinese leaders in Beijing to maintain a voice in their neighbouring region. Under dark shadows of the dissolution of Yugoslavia, Communist China needed to orient the Xinjiang independence movement away from the international security architecture. In this same period, the Jiang administration signed away several border regions once under the jurisdiction of Qing China to Russia, Kazakhstan and Kyrgyzstan as a gesture to show friendly diplomatic commitment. The land deals significant to the successful establishment of the SCO in turn was domestically disastrous for the Jiang administration. Despite a carefully crafted

reporting of the land deals as a successful turning point in China-Russia relations, Chinese mainland nationalists labelled Jiang a traitor, Russia's spy, for selling out China's land to Russia. Comprising land deals, together with generous loans and investments, China had communicated clearly its strong will to work with Central Asian leaders.

Secondly, encouraging the formation of an independent group of Central Asian leaders helped to reduce Russia's strategic encirclement capacity around China. To this end, China's early policy on Central Asia focused on building the foundation to allow future integration between the Chinese and Central Asian economies. Aiding to develop and support a more independent Central Asian economy also helped to diminish migration to Russia, a dependence leaders in Beijing understood to be key in Russia's lasting influence in the region (Ji & Guo, 2017, p.126). The Jiang administration has thus spent these early diplomatic years convincing Central Asian leaders that integration with the Chinese economy can bring the region back to its once prosperous days during the Silk Road, and with this economic prosperity Central Asian leaders can attain whatever political legitimacy desired.

Both the Kazakhstan-China oil pipeline and the China-Central Asia natural gas pipeline initiated and made possible by the Jiang administration serve significant purposes in orienting Central Asia towards China. The 1995-6 Taiwan Strait Crisis involving the United States alarmed Chinese leaders due to its very own bizarre reliance on the sea-lanes as the sole route of imported oil and gas. In 1997, China signed the first agreement with Kazakhstan to construct a bilateral oil pipeline, opening a strategic potential to shift reliance from sea-based energy sources (People's Daily, 1997).

The Hu Administration (2002 – 2012)

This period saw political efforts from the previous administration paid off. Central Asian governments practically supported China's regime against the separatist movement in Xinjiang (Pannier, 2020). China has built a strong foundation to assert influence in the region via the SCO¹ (Yau, 2020). Success in building high-level bilateral political trust in the previous decade presented an opportunity for the Hu administration to take seriously the plan for a land-based trade route and a secure source of energy from and through Central Asia. As the Hu administration witnessed unprecedented growth of the Chinese economy, energy and cargo dependence on US-controlled South China Sea and the Taiwan Strait grew too, driving Chinese leaders to strategize steps to cease Chinese reliance on sea-based trade.

At the beginning of this decade, it dawned onto leaders in Beijing that the market cannot be bent by politics, at least not easily. While trade figures between China and Central Asia grew significantly, from \$463 million in 1991 to \$2.3 billion in 2002, the majority of these figures were attributed to trade between China and Kazakhstan². At \$368 million in 1992 and \$1.9 billion in 2002, bilateral trade between China and Kazakhstan nonetheless disappointed Chinese leaders, who had misjudged trade potential between the two countries. In 2002, Kazakhstan ranked 45th as a destination of Chinese exports and 29th as an origin of Chinese imports (World Bank, 2020).

¹ The SCO was able to come to a collective decision against NATO military bases, as well, voicing support for Beijing's domestic political agenda. In 2005, the SCO called on the US to set a deadline for withdrawal of forces from Central Asia (Shanghai Cooperation Organization, 2005). In 2008, the SCO objected to Taiwan's membership at the United Nations, reassuring support for China's reunification with the nationalist island (UzDaily, 2008). At the same time, the SCO did not support Russia's agenda in South Ossetia (Reuters, 2008).
² Data obtained from Chinese embassies in Central Asia.

Against this background, China's policy on Central Asia during the Hu administration continued to maintain high-level political trust and cultivate stronger economic integration to make reality a land-based trade route. The main goal in Central Asia under the Hu administration was to deepen cooperation between China and Central Asia.

Firstly, other areas of cooperation have been opened to compensate disappointing bilateral trade under the Hu administration to build further Chinese influence in the region. A system of cooperation mechanisms expanded beyond trade under the Hu administration, connecting Chinese officials to their Central Asia counterparts in various areas. Consistently led by high-level Chinese officials, these cooperation committees signify the political importance of Central Asia. Furthermore, this cooperation committee mechanism offers a direct negotiation channel between Chinese and Central Asian officials as well as stakeholders in particular areas. In the area of finance, an effort to update the 1992 China-Kazakhstan investment promotion and protection bilateral treaty have been under negotiation through the finance cooperation committee since 2014, where representatives of both the Chinese and Kazakh finance sector discuss issues in the presence of political leaders³. In the area of geology, as part of

³ In August 2019, the meeting saw representatives from the Kazakh State-owned Bank, Kazak Sovereign Wealth Fund Samruk-Kazena, Astana International Finance Center, Kazakh Development Bank, Kazakh People's Bank, Kazakhstan Stock Exchange, Kazakh Savings Bank, Alkin Bank, Kazakh Export Company, Kazakhstan Interbank Settlement Center and China-Kazakhstan Khorgos International Border Cooperation Center. Chinese representatives include People's Bank of China, Chinese Ministry of Commerce, Chinese Ministry of Foreign Affairs, Chinese Banking and Market Supervision Management Committee, Export and Import Bank of China, Chinese Development Bank, Chinese Export Insurance Company, Chinese Agriculture Bank, Bank of China, Chinese Construction Bank. See: <http://www.mfa.gov.kz/zh/beijing/content-view/po-itogam-10-go-zasedania-podkomiteta-po-finansovomu-sotrudnicestvu-kazahstansko-kitajskogo-komiteta-po-sotrudnicestvu>.

an effort to strengthen cooperation on river sharing and related water issues, the geology cooperation committee organized for Chinese and Kazakh scientists to jointly work together on a hydrogeological map of the Yili-Balkash basin in 2011 (Ministry of Natural Resources of the People's Republic of China, 2011).

Secondly, in light of disappointing trade, Chinese policy banks began issuing large loans to support Central Asia's state-owned enterprises in order to deepen economic integration. Between 2005 and 2012, Export and Import Bank of China issued an estimate of at least \$14.3 billion loans to state-owned Central Asian enterprises, followed by \$6.3 billion from China Development Bank⁴. Some of the largest deals include a \$7.1 billion loan to Turkmengaz, a \$5 billion loan to KazMunayGas (through the SK Fund) and a \$1.3 billion loan to Kaz Minerals. Resource extraction aside, the National Bank of Uzbekistan received an at least \$1.1 billion loan from Chinese policy banks in this period to support small-to-medium size Uzbek businesses.

Many of these loans from Chinese policy banks to Central Asian state-owned enterprises were repurposed to hire Chinese state-owned contractors. For example, in 2017, the Export and Import Bank of China loaned \$808 million to the Kazakh National Highway Corporation to hire China General Technology to repair two highways, one from Qalbatay to Jimunai on the Chinese border and other from Merki to Burybaytal (China General Technology, 2017). These loans from Chinese policy banks have in turn supported Central Asian governments whose political legitimacy was partially reassured by performance of these state-owned enterprises and projects.

⁴ Compiled by author from open-sourced research in Chinese language.

The Xi Administration (2012 – present)

At an official visit to the United States nine months before taking over Hu as the paramount leader of the Chinese Communist Party, Xi suggested for the first time that the two countries must build a “new type of great power relations” (新型大国关系). From China's perspective, the world in this decade has already shifted in favour of the middle kingdom. A new type of relationship is needed since China has now joined the club of great powers in the world. This verdict, driven by and further reinforced by rising nationalism in China, has led the Xi administration to paint a grand narrative – the Belt and Road Initiative, a global project aimed to accelerate connectivity in the Eurasian landmass (Yu, 2017, p.356).

China's Central Asia policy under the Xi administration has been quickly consumed by this ideologically driven Belt and Road Initiative. In an overwhelming majority of speeches and meeting records by Chinese and Central Asian leaders on the topic of cooperation, the Belt and Road Initiative have since been emphasised, while new areas of cooperation are framed as pushing forward this connectivity strategy. At the center of the Silk Road Economic Belt (the Belt), both the Jiang and Hu administrations consolidated a good foundation in Central Asia for the Xi administration to implement additional ideas in the region. Building on top of the previous administrations, the main goal of China's Central Asia policy under the Xi administration is to orientate the region as a key hub of the Belt and Road Initiative.

But as signs of a slowing Chinese economy began to surface (2011~), Xi struggled to finance expensive multi-billion dollar projects that make little profits, and the ambitious global project put emphasis first on political commitment before becoming a practical drive to connectivity.

For example, while alignment of domestic and bilateral development strategies with the Initiative served as a good template for cooperation, they failed to bring expectations to reality given the poor economic environment. On top of a slowing Chinese economy, the Crimea crisis in 2014 led to a sharp devaluation of the Russian ruble and the Central Asian currencies. As a result, China-Central Asia trade drastically shrank. Between 2013 and 2016, bilateral trade between China and Central Asia fell by 40% from \$50.2 billion to \$30 billion⁵. In 2016, bilateral trade between China and Kazakhstan was at \$13 billion, lowest between the two countries in 10 years. In 2015 and 2016, ten projects, totalled \$2.1 billion, began construction under the 2015 China-Kazakhstan government-to-government industrial investment project agreement (Kazakh Invest, 2019). As the Kazakh economy began to show signs of recovery, in 2017 and 2018, eleven projects worth \$6.5 billion began construction under the agreement (Kazakh Invest, 2019).

Without generous financial backing, in logistics most of the work done in the early years of Xi's administration (2013 - 2016) centred on solving problems of existing infrastructure. For example, the easing transit for Central Asian products heading to South East Asia at Lianyuangang, a permit system for drivers transporting cargo trucks between China and Central Asia, and expanding route options for the China-Europe trains were all introduced. The cooperation style went from heavily bilateral to now multilateral, involving countries from elsewhere in Eurasia (such as cargo ferry transit negotiations with Azerbaijan), under platforms created in the name of Belt and Road Initiative. Unlike the previous administrations, the Xi administration lost sight of a clear actionable strategy in Central Asia, thus failing to implement projects that match the region's

⁵ Data obtained from various reports published by the General Administration of Customs, People's Republic of China.

would be Belt and Road potential while being ineffective at managing key bilateral issues such as Kazakhstan's move to grant asylum for ethnic Kazakhs from Xinjiang. Both the SCO free trade zone and the China-Kyrgyzstan-Uzbekistan railway remain unable to materialize despite several Chinese attempts under the Xi administration at demonstrating economic benefits for Central Asian states.

From a reactionary foreign policy to a pursuit of its own agenda, going forward, China's ambition in Central Asia is no longer moderated. While Xi's ideological shift has radically prompted Chinese readiness to amplify engagement with Central Asia, practical progress towards project implementation has been and will be sensitive to Chinese economic growth.

Conclusion

This article details the transition of China's Central Asia policy from reactionary during the Jiang administration, to economically driven during the Hu administration and ideologically oriented during the Xi administration. As Taiwanese independence escalates, a peaceful reunification between China and Taiwan grew evermore unlikely, Central Asia has emerged as China's strategic pivotal region to balance increased militarization in the Taiwan Strait and South China Sea. While Chinese leadership consensus on the strategic importance of Central Asia is clear, on the ground pursuit of power in Central Asia has been subjected to the domestic nature of policy drivers in each administration.

Recommendations

- Firstly, Central Asian policy makers must monitor China's domestic environment in order capture Chinese foreign policy directives in the region.

After COVID19, there are high chances that China will offer economic stimulus packages around the world if the Chinese domestic economy recovers and responds well to tightening capital controls. In that case, some expensive Belt and Road infrastructure in Central Asia may see generous financing, such as the Kyrgyz section of the China-Kyrgyzstan-Uzbekistan railway. Additionally, large financial backing may come to support establishing a development bank and/or a free trade zone under the SCO, initiatives backed by China since early 2010s. This will stimulate a serious wave of Chinese investments into the region.

China's economic driver abroad after COVID19 is likely to be headed by state-owned enterprises. During COVID-19, Chinese state-owned enterprises stood strong, having suffered only a 7% loss compared to Chinese private sector's 21% (Chen, 2020). Therefore, Chinese state-owned enterprises will likely head these new economic stimulus packages abroad as the private sector continue to suffer and the Chinese government carefully watches capital outflow. Political incentives will thus likely to take precedence over profitability of projects, aggravating corruption in the region.

This will put to test China's soft power in the region, as anti-China sentiments continue to drive protests in Kazakhstan and Kyrgyzstan, putting security of investments at risk. What is more, as locals grow wary of Chinese investments, this stops Central Asian elites from displaying a pro-China stance in fear of a backlash, complicating implementation

of Chinese projects. Management of this anti-China sentiment is thus necessary, from the point of view of both China and Central Asian elites. When improving the business environment, Central Asian states must be proactive at the same time to provide transparency.

- Secondly, Central Asian governments should professionalize their business environment to manage incoming Chinese investments that can facilitate post-COVID19 economic recovery. Part of this effort must focus on providing more transparency regarding Chinese investments and projects.

On the other hand, the Chinese economy's failure to recover from COVID19 will also have severe consequences for Central Asian economies. In particular, China is unlikely to offer generous restructuring of debt repayments from Kyrgyzstan and Tajikistan, which will put further strain on the two small Central Asian economies as remittance fell drastically during COVID19. Debt repayment from the two countries is also likely to exacerbate anti-China sentiments and highlight security concerns if other forms of repayment surface.

Without generous financing for large infrastructural projects to drive cooperation, China-Central Asia relations will have to face political problems head on. Kazakhstan and Kyrgyzstan are already facing increasingly tense domestic pressure regarding China's treatment of ethnic minorities across the border in Xinjiang. Given clear signs of Xi's ambition to stay in power, an aggressive authoritarian leadership in China is unlikely quickly resolve political tension with the United States after COVID19. Remained unresolved, the United States will apply greater pressure on Central Asian government to make a stand against China's treatment of ethnic minorities in Xinjiang. In October 2020, four months after the United States signed the

Uyghur Human Rights Policy Act, Tajikistan and Turkmenistan no longer support China's Xinjiang policy at the United Nations as they did the year before (Putz, 2020). In either case, political tension between China and the United States will add to Central Asian calculation in jumpstarting post-COVID19 economic cooperation with China.

- Lastly, Central Asian governments should continue to deepen a balancing approach in international affairs and explore areas of common interests in the region to allow joint participation from other actors.

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