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KAZAKHSTAN-CHINA RELATIONS, 1991-2001

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for the award of the degree of*

MASTER OF PHILOSOPHY

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DECLARATION

I declare that the dissertation entitled “KAZAKHSTAN-CHINA RELATIONS, 1991-2001” submitted by me for the award of the degree of **MASTER OF PHILOSOPHY** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this or any other University.

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We recommend that the dissertation be placed before the examiners for evaluation.

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Dedicated

To

Late Amma (Grandmother)

And

Memorable Dear Elder Brother Late Himanshu Tripathi.

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PREFACE

Kazakhstan occupies a unique geopolitical position in Eurasia sharing about 1700 kms long border with China which constitutes almost half of China's total border with Central Asia. That this border goes along plains, three rivers (Irtys, Emin, Ili) further enhance the geopolitical importance of Kazakhstan vis-à-vis China. Ever since the republic of Kazakhstan declared its independence on December 16, 1991, its foreign policy has been oriented towards consolidating its relations with foreign powers particularly its great neighbours - China and Russia. Kazakhstan has made rapid progress after managing the pains of political and economic transition. Kazakhstan has over the period of sixteen years of its independence gradually emerged as a regional power from the region itself. This process is both the result of its economic progress and the moderate and 'multi-vector' foreign policy of Kazakhstan.

After over 16 years of its independence, Kazakhstan has developed its energy sources and has become the richest country in the Central Asian region. Calculated domestic and international policies have also contributed to the stability of this multi-ethnic country. The Kazakh leaders have been stressing the importance of multifaceted relationship in the international arena. As such, Kazakhstan has developed political and economic relations with China, as well as other great powers. Although mutual skepticism exists among the leaders of China and Kazakhstan, they have approached each other following a careful policy with stress on friendly cooperation instead of touching on the contentious issues. China has adopted an active policy and resolved the border issue with Kazakhstan. By developing good relations with Kazakhstan, China secured its long border with this country from any hostile development. Furthermore, China created the Shanghai Cooperation Organisation with the help of Russia, and some Central Asian states, in its bid to outmaneuver the US presence in the region.

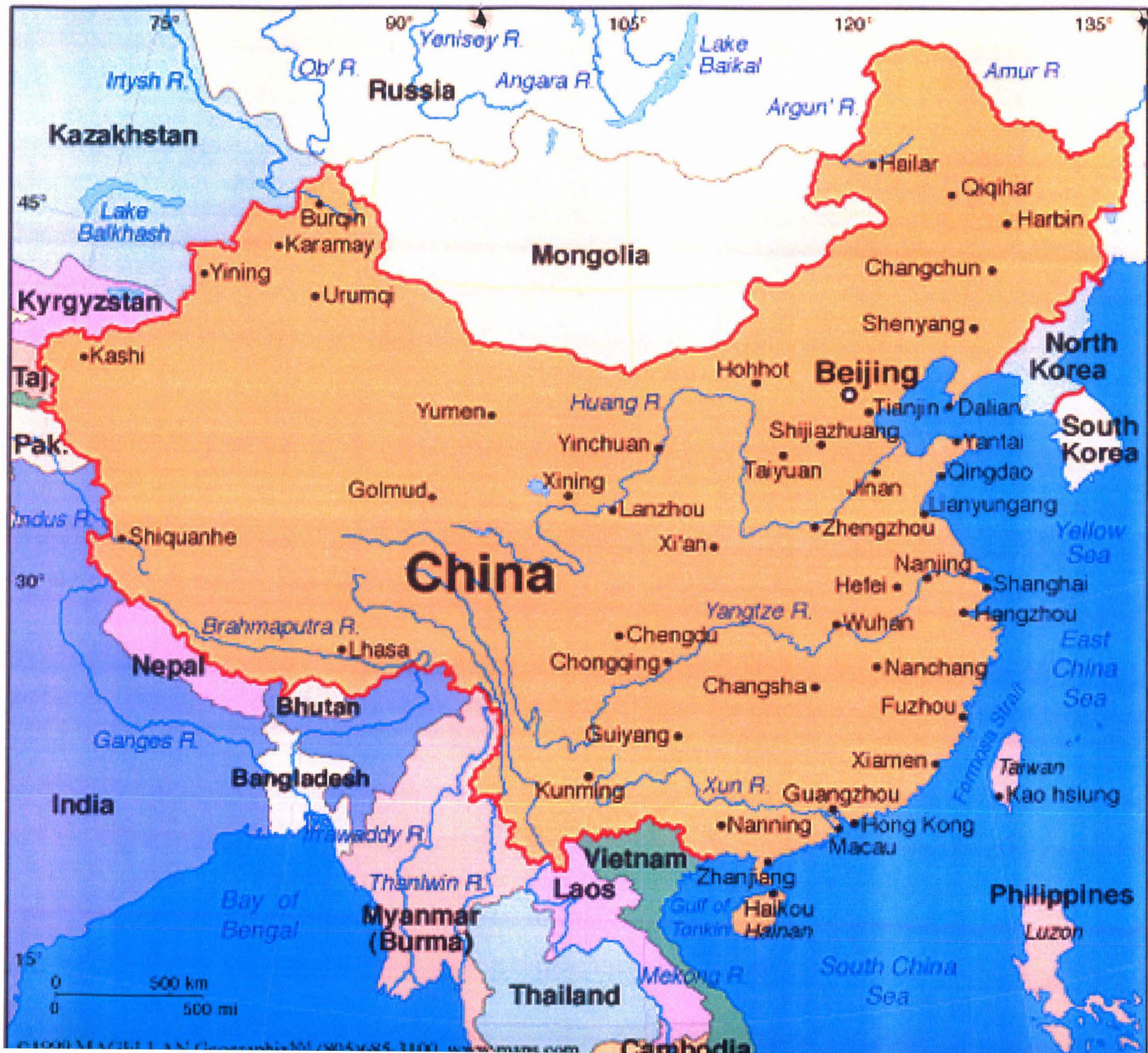
It is against this background that this dissertation seeks to examine the extent and pattern of Kazakhstan- China relations from 1991 unto 2001. This dissertation has six chapters. First chapter is introductory in nature and attempts to provide a brief overview of the present research work in a precise manner. This chapter gives a basic understanding of the whole work and build up a perspective. Second chapter titled Political Relations deal with the extent and pattern of relations between Kazakhstan and China, from the year 1991 (when Kazakhstan became independent) till 2001 (i.e. till 9/11 and when US set up its bases in Central Asia). Third chapter explores the Economic Linkages between the two countries. Since Kazakhstan is rich in natural resources like oil, natural gas, gold, uranium and other valuable minerals, China's trade with this country has been increasing enormously. This chapter examines the extent and pattern of bilateral besides looking at Chinese investments in Kazakhstan. Fourth chapter titled Border Settlement and Role of SCO examines the process of negotiations and border settlement between Kazakhstan and China.

Fifth chapter titled Energy Cooperation explores various aspect of energy cooperation, involving construction of pipelines and transportation of oil from Kazakhstan to China, between the two countries. Sixth chapter provides the conclusions regarding the Kazakhstan - China relations in the fields of economy, energy and regional cooperation.

The whole study is based on published literature, government publications and speeches of the leaders, which have been collected from both the primary and secondary sources. Besides articles published in various research journals and books have been consulted.

CHAPTER-1
INTRODUCTION.





KAZAKHSTAN-CHINA RELATION, 1991-2001

Introduction

After the collapse of former Soviet, Central Asian Republic of Kazakhstan emerged as an independent and sovereign country. Kazakhstan was born by default, as independence the republic from Soviet Union in 1991 was neither the result of secessionist demands by its leadership, nor any national liberation movement, (Cumming; 2005:1).

The Republic of Kazakhstan is situated in the centre of the Eurasian continent and occupies the territory of 2,717,300 square kilometers. In terms of area Kazakhstan is ninth among the largest countries of the world. Kazakhstan shares with China about 1700 km of common borders. This border goes along plains, three river (Irytyush, Emin , Ili) further enhances the geopolitical importance of Kazakhstan vis-à-vis China. (Iwashita Akhiro (SRC Oapan) in his "China and Central Asia: A Research Report on the Border Contiguity"). , with Kyrgyzstan 980 km, with Turkmenistan 380 km, with Uzbekistan 2300 km and with the Russian Federation 6,477 km. Steppes occupy some 26% of territory of Kazakhstan, whereas the deserts cover 44% of territory or 167,000,000 hectares. 14% of surface is covered with semi-deserts. Forests occupy 21,000,000 hectares. The length of the Kazakhstan part of Caspian coastline is 2,340 km. (Abishev; 2002: 6-7).

Kazakhstan Republic, a landlocked country has a strong presidency. The country is a conglomeration of diverse nationalities with more than 100 ethnic groups living in this Republic. Principal ethnic groups are Kazakh (60%) and Russian (30%). (Ibid:45)

Central Asian Republics- Population and Area

State	Population (in million)	Area (in million sq. km).
Kazakhstan	15.4	2.72
Kyrgyzstan	4.7	0.49
Tajikistan	6.2	0.20
Turkmenistan	4.8	0.14
Uzbekistan	24.5	0.45

Source: World Development Report (2000/2001), the World Bank.

On October 25, 1990, the Supreme Council of the Republic adopted the declaration on state sovereignty of the Kazakh Soviet Socialist Republic. On August 19, 1991, the same day of the abortive attempt of a state coup in Moscow, President Nursultan Nazarbayev addressed the nation and issued the Decree on formation of the Security Council of the Kazakh SSR, the Decree on transition of state-owned enterprises and organizations, for establishing the gold and diamond reserves fund of the Kazakh SSR, and on closing of the Semipalatinsk nuclear test site.

Kazakhstan soon after its independence, was confronted by economic crisis. Inflation was on the rise accompanied by an ever-aggravating decline in the living standards of the majority of population. Such were the conditions in which the authorities embarked on the road of developing market economic relations. (Abhishev; 2002:14-15).

In the post-Soviet period, the three key players in the geopolitical space around Central Asia - Russia, China and the United States- achieved a provisional equilibrium. Russia maintained its traditional dominance in its former Southern provinces. China, as it developed its economic relations with the Central Asian countries, gradually increased its own political influence, while seeking to avoid confrontation with Moscow. The United States, despite its pre-occupation with other areas of greater strategic significance, kept a

wary eye on region. Despite its interest in the Caspian, Washington initially relegated the region to the periphery of its foreign policy activities. Post-Soviet Central Asia, as before, remained in with the gravitational field of Russia, although China has come to exert substantial influence. (Boris; 2002:57)

After its independence on December 16,1991, independence, Kazakhstan has developed its energy resources and become the richest country in the Central Asian region. Kazakhstan has developed political and economic relations with China as well as other great powers. Although mutual skepticism exists among the leaders of China and Kazakhstan, they have approached each other following a careful policy with stress on friendly cooperation instead of touching on the contentious themes. China has adopted an active policy and resolved the border issue with Kazakhstan. By developing good relations with Kazakhstan, China secured its long border with the country from any hostile development. China created the SCO with the help of Russia, and some Central Asian states, in its bid to outmaneuver the US presence in the region.

Kazakhstan has proven oil reserves of about 26 billion and proven natural gas reserves 3 trillion cubic meters. Kazakhstan's strength emanates from its rich energy and other natural resources. Over the past few years Kazakhstan has witnessed high economic growth due to boom in oil prices. (Ercilasum; 2004 :40)

At the same time China which is dependent on oil, imports out to sustain its high economic growth. For China, the economic development and cooperation of Central Asian Republics would help in promoting regional economic stability and prosperity which in turn would lead to political stability and China needs a stable and peaceful international environment for its flourishing trade. (Liu ; 1995 :20.)

China's policy in Kazakhstan is linked to its larger strategic and geo-political interests following the disintegration of the former USSR and gradual Russian withdrawal from the region, Chinas economic policy is also largely based on its energy security needs and search for a market for its finished goods. There is also a fear among

the Chinese policy makers with regard to the policy of 'opening up' of its north western frontier towards the Muslim Republics of Central Asia as it would invite the risk of Islamic fundamentalism and cross-border ethnic separatism which are grave threats to China's national securities. (Mishra ; 2001 :3).

In the political sphere, China has historically maintained active interest in Central Asia. China maintained close contacts with Central Asia through the Silk Route. Historically the relations between Central Asia and China have been good. The initial contacts and relations between the two sides were very complicated. It was in the second half of the 19th century that Russia annexed the Kazakh steppes. This resulted in the borders of Russia and China for the second time after a hundred and fifty years. After the delimitation of the border between Russia and Chinese empire in the Siberian front, these two empires started dividing their border in Turkistan. The first attempt to establish a border between the two empires was through the treaty of Peking in 1860. According to this treaty the border in Turkistan was based on the existing line of permanent pasture pickets which had been established to limit the use of pastures by the nomadic Kazakhs. However, this was still a roughly defined border and a detailed delimitation of this boundary was needed. This delimitation took three decades and finally the treaty of Tarbagatai, signed in December 1893, marked the final resolution of the border issue in the 19th century (Konuralp, 2004, 20).

The collapse of USSR, independence of Muslim Central Asian Republics, the continuing ferment among the Turkic Uygurs in Xinjiang province of China, and the emergence of unipolar world dominated by the US, caused concern to China, which had looked for close and friendly ties with its Central Asian neighbours in general and Kazakhstan in particular.

Beijing is keen to play an important role in regional affairs making the best use of its political, economic and military capabilities. The emergence of independent Kazakhstan provided China an opportunity to re-assert its traditional regional interest. The Chinese policy has been to maintain peace and tranquility along its border in

Xinjiang. China has been wary of its minority ethnic group of Uygur Muslims being subjected to any separatist influence. So, Chinese position in Xinjiang depends as much on the Beijing's ability to influence events across its border as it does on controlling events within.

The most important concern of China is the security of its border region in Xinjiang. Many Uygurs live in Kazakhstan and there is also a substantial Kazakh minority living in China's province of Xinjiang both having their relatives on either side of the border. This situation caused serious disquiet in China especially in 1990s. However, after establishing good relations with neighbor Central Asian countries and establishment of the SCO, China has ensured its security in Xinjiang besides promoting bilateral trade. Chinese policy in Kazakhstan has thus been governed by both strategic and economic considerations, which have strong linkages with the geo-politics of Xinjiang. Kazakhstan too has attracted huge Chinese investment in oil and gas sector and other industries. Shanghai-5 was a successful confidence building effort. Eventually this organization, which was renamed as SCO (Shanghai Cooperation Organisation) is serving as vehicle for enhancing China's role in resolving regional security problems. (Marth; 2002:134)

Kazakhstan as well as other CIS countries were faced with the necessity of resolving its boundary issues with China. And for resolving this issue a unique way was chosen, i.e., of peaceful settlement of the disputable problems on the basis of consensus through Shanghai 5 and later through SCO. A number of important documents promoting close and friendly mutual relations between its participants have been signed. (Adel and Bulat; 2002: 23) SCO organization could serve the interest of its members. It remains to be seen if the SCO will remain the guarantor of the balance of regional interests when China achieves absolute domination in the Asian continent. SCO paved the way for negotiations and resolution of the boundary problem. (Khojaev; 2001)

The boundary issue is basis to further improvement in the relations between the neighbouring countries. China adopted an active policy in the region mainly due to the

border issues and its security and its active policy created the Shanghai-5 in 1996. (Konuralp, 2004: 34-36)

China has also adopted an active policy in the region through SCO. The SCO is playing a key role in dealing not only with the regional, political, economic and ecological issues, but it also provides strong regional forum to take common initiatives to combat terrorism, drugs trafficking and separatism.

Chinese engagement in Kazakhstan stems from four basic factors. Firstly, Beijing wants to ensure its access into Kazakhstan's rich energy sources which is very important to meet its growing energy (particularly oil and gas) needs in future. According to one estimate Chinese domestic oil demand is expected to rise by around 4% annually. (Singh; 2000:11-12)

The presence of vast oil and natural gas reserves in Kazakhstan (at the end of 2000 Kazakhstan's proven total reserves of petroleum and natural gas were estimated to be 1100m.metric tons and 1, 84,000 m cubic meter respectively. (The Europa World Year Book : 2002) Secondly China wants to subdue the ethno-religious nationalism in its Xinjiang province. Thirdly, it wants to protect its own political and economic interests in Kazakhstan vis-à-vis other external players. Finally, China is interested to use Kazakhstani market to sell its consumer goods.

On its part Kazakhstan also needs Chinese assistance in attaining several objectives:

Firstly, it needs Chinese economic assistance and policy guidance for its domestic economic growth. Secondly, Kazakhstan views China as a strong alternative to Russia to lessen its dependence on the latter. China has been able to help Kazakhstan to exploit and export Kazakhstani energy resources by providing ample investment funds and exporting routes. Thirdly, Kazakhstan also wants to avert any possible ethnic extremism from its complex ethnographic structure, which has some commonality with that of Xinjiang province of China. Finally, Kazakhstan finds a lucrative market in China.

Since the establishment of their diplomatic links both sides have been exchanging visits with each other. Serious attempts are being taken by both the nations to resolve mutual difficulties and elevate the political and economic relations between them. A "Historic Border Accord" was signed between the two nations on 26 April 1994 on the eve of then Chinese Prime Minister LI Peng's visit to Kazakhstan. (Zardykhan; 2002: 180) On this occasion the two countries agreed to eliminate all transport restrictions between them and affirmed the inviolability of their current borders. (Hunter; 1996: 127)

It is important to note here that the Xinjiang province of China plays a major role in Kazakh-China trade and economic relations. It is the only province of China which shares common border with Kazakhstan. In fact, major part of Kazakhstan's trade with China is concentrated in Xinjiang province. For example, Xingjiang's shares in Kazakh-China trade in 1996 were more than 90%. (Raczka; 1998:395).

Since early 1990s, China's geographical proximity to Kazakhstan seems to have played a critical role in ensuring China's edge and in facilitating close engagement with Kazakhstan. Though their engagement since 1990s appears to be moving in the right direction, yet there are numerous challenges, which will have to be dealt with by both countries. . (Singh;2000:16-17)

CHAPTER - 2

POLITICAL RELATIONS

Kazakhstan with its advantageous geo-political location and vast deposits of oil and gas has become one of the key players in the huge energy sector in the Central Asian region. This country is landlocked and shares its borders with Russia, China, Uzbekistan, Kyrgyzstan and Turkmenistan. Traditionally, Kazakhstan has been an ally and more than a partner of Russia since the two countries have the same cultural, language and political backgrounds. However, Kazakhstan has declared a “multivector” foreign policy which means a willingness to develop and improve strategic, diplomatic and economic relations with the major geopolitical powers in the international arena, namely, China, Russia, the US, Europe and the Muslim world. China ranks as one of the main priorities for Kazakhstan for collaboration. (Saurbek; 2008:79).

Kazakhstan has been of fundamental importance in the history and politics of Eurasia. Having been a region of unstable frontiers, the balance of power between its own population and surrounding states has determined its political status. This area was a zone of triangular contest between Britain, Russia and China during the nineteenth and early twentieth centuries, which has been romanticized as the “Great Game”. The disintegration of the Soviet Union and the subsequent emergence of newly independent and sovereign Central Asian states of Tajikistan, Uzbekistan, Turkmenistan, Kyrgyzstan and Kazakhstan has drastically changed the balance of power in this region. (Warikoo;2002:17)

After the collapse of USSR, Kazakhstan became an important state in Central Asia. It is situated on the Silk Road, the historical trade route, connecting East and West. These characteristics have made it the new focal point of the world especially the big powers. Thus great powers, i.e., US, Europe, Russia, China and India have strived for establishing close relationship with Kazakhstan.

History of Kazakhstan- China Relations

The first official political contact between the Kazakh governors and China's Qing dynasty rulers began in the summer of 1755 AD. The commander of Qing army came into contact with the Sultan of Average Zhuz, Ablay. However, in the autumn of 1755 AD anti-Qing revolt broke out in Zhungaria and the Summer of 1756 AD, Qing army intruded into the Kazakh area and in early 1757 AD, Ablay's and Amursana's groups entered into negotiations with the Qing Court as a result of which diplomatic and trade relations between the Qings and the Kazakh governors were re-established. "Tribute System", a system of offering traditional gifts to the Chinese Emperor was very much prevalent during that period. However, the Qing Court designated Kazakh Khans and Sultans as new vassals of the Chinese Emperor. By the middle of 1760s, there was a paradoxical situation in Kazakhstan when Kazakh Zhuzs in the Russian empire were considered by the Chinese as "Citizens of the Chinese Empire" and their territory was called as "the territory of the Celestial Political Instability". (Akataeva, 2006:45)

Historically there were relations between the Kazakh people and the Chinese in the second half of the 18th century. The initial contacts and relations between the two sides were very complicated. Whereas some Kazakh people came under the influence of the distant power, some of them started obeying Russia, because of the fear of Chinese expansionism. In the second half of the 19th century Russia annexed the Kazakh steppes. This situation turned Russian and the Chinese borders to touch for the second time after a hundred and fifty years. After her delimitation of the border between Russia and Chinese empire in the Siberian front, these two empires started dividing the border between the two powers in Turkistan. The first attempt to establish a border between the two empires was the Treaty of Peking in 1860. According to this treaty the border in Turkistan was based on the then-existing line of permanent pasture pickets which had been established to limit the use of pastures by the nomadic Kazakhs. However, this was still a roughly defined border, a detailed delimitation of this boundary was needed. This delimitation took three decades and finally the Treaty

of Tarbagatai, signed in December 1893, marked the final decision on border issues in Turkistan during the 19th century.

The delimitation of Turkistan between the two empires was an artificial attempt as it had been drawn without regard to ethnic, cultural and religious considerations. It was mainly based on the military and the strategic considerations of Russia and China. Thus, it resulted in the native people living on either side of the international boundary. This situation resulted in porous border for more than one century. If there was disorder on the Russian side, the people fled to Chinese part and vice versa. Moreover, the border became the backdrop to several migrations and the first families moved to the Russian empire during the 19th century. So, the border was vulnerable from both sides. (Ercilasun;2006:12)

Kazakhstan- China Relations during Soviet period

Kazakhstan –China relations did not begin abruptly with the disintegration of USSR Rather, the post-cold War relationship during the Soviet period was moving according to the movement of Sino-Soviet relations. Sino-Soviet rivalries that followed the break-up of Moscow-Beijing alliance in 1958 and Moscow’s propaganda against Beijing generated fear and suspicion in Kazakhstan towards China which for a long time inhibited the relations between the two sides. (Hunter; 1996:125)

The Open Door Policy introduced by China in December 1979 would have normalized the situation; but the Soviet intervention in Afghanistan in December 1979 once again fuelled the Sino-Soviet hostility. However it was in April 1982 that the ministry of Foreign Trade of China and the Soviet Ministry of Foreign Trade formally exchanged a note to resume border trade between two countries. (Liu; 1998: 180)

Finally, the Sino-Soviet relations normalized in May 1989 when Gorbachev’s visited to Beijing to attend the Sino-Soviet Summit. This removed all barriers to improve relations between China and Kazakhstan. (Hunter; 1996:125)

Since, then the trade and economic relations between Kazakhstan and China have been continuously improving.

Diplomatic Recognition and Progress in Relationship

After the collapse of Soviet Union, China took active interest in the developments in Central Asia, (Rumer and Stanishpav, 1998:159) Especially, Kazakhstan, sharing longest common border (more than 1718 km) with China among all the Central Asian states and inheriting huge amount of nuclear weapons and stockpiles, attracted greater attention. Apart from these factors, close ethnic affinity of Kazakhstan's population with that of volatile Xinjiang province (which would fuel the separatist tendencies in Western provinces) has been a matter of great concern for Beijing. So China lost no time in recognizing and establishing diplomatic relations with Kazakhstan. On 27 December 1991, a telegram was dispatched to the Foreign Minister of Kazakhstan regarding Chinese recognition of the country's independence and its intention "to hold negotiations with it on matters relating to the establishment of diplomatic relations" (China Quarterly, March 1992, no.129:285). Accordingly, China established diplomatic links with Kazakhstan on 3 January 1992. (Yasmin; 1998:236)

Beijing smartly managed to get Kazakh support regarding China's territorial integrity with particular reference to Xinjiang being a part of China and "One China policy" (ruling out recognition and establishment of official relations with Taiwan) as a pre-condition for diplomatic recognition. Kazakhstan government immediately recognized that "the government of People's Republic of China is the only legitimate government of China and Taiwan is an indivisible part of the Chinese territory.

Among the great powers, which are closely interested in the region, is China. It is in an advantageous position to influence this part of the world due to its geographical proximity with the Central Asian states; China is also an emerging economic powerhouse of Asia. However, China has also disadvantages such as ethnic problems and historical suspicion among the Central Asian people about the intentions

of former, which may hinder the process of bilateral relationship with these states. Keeping in mind the potential problems it is facing in its North - West. Frontier province of Xinjiang, as well as the historical and cultural closeness of them with Kazakhstan, China has adopted an active policy in the region. The strengthening of the Shanghai Cooperation Organization is one of the fruits of this active policy.

Adopting a realist approach to international relations, China seeks to maximize its power and influence in the region vis-à-vis Russia and the USA. In doing so, China faces challenges from its rivals. One way of enhancing its role in Kazakhstan is through diplomacy and therefore having good relations with the nascent Central Asian states is vital for China. Through the SCO, China intends to exert its authority in Central Asia as well as show the international community that its presence there is indispensable for regional security. (ONG;2005:437)

On the other hand, Kazakhstan has made rapid progress after managing the pains of building a new regime and a new country. Nowadays, Kazakhstan is gradually emerging as a regional power in the region itself. This process is the result of the economic progress and the moderate policy of the Kazakh administrative elite. Thus, strengthening relationship with Kazakhstan gains more importance with this process. (Ercilasum; 2004:11)

China's Perception of Central Asia

The collapse of the Soviet Union reduced the principal security threat to China. Optimistic assessment of China's role in a multipolar world caused greater concern in Beijing about the emergence of US led unipolarity. Beijing used this as a new opportunity to play a new role in regional affairs that would make the best use of its political, economic and military capabilities. The emergence of independent Kazakhstan gives China the opportunity to reassert its traditional regional interests.

From China's perspective, the disintegration of the Soviet Union accelerated the process of de-linking local and regional conflicts from superpower rivalry. Beijing

sees opportunities among the competing interests of contiguous (Iran, Pakistan, India and Russia) and non-contiguous (Turkey and Saudi Arabia) actors in Central Asia. China's ability to play a new geo-political game in Kazakhstan is based on "comprehensive national strength" (Political, cultural, social, and economic) as well as traditional interests. Geography also favours its active role in Kazakhstan. (Walsh, 1993:273-74)

China has keen economic interest in Kazakhstan's trade and energy resources. Xinjiang is one of the poor provinces in China and has received much attention in Chinese administration during recent years. Xinjiang also has a history as one of the most active trade routes in the history of mankind as the ancient Silk Route passed through this province for several hundred years. Until recently development in the area lagged behind the rest of the country and slowed down the booming Chinese economy. Although China has rich oil and gas fields in its territory they are not enough for its growing need for energy. Kazakhstan has huge oil resources and other states (mainly Turkmenistan and Uzbekistan) have natural gas. China has already bought pumping rights to the oil fields in Kazakhstan and is planning billion-dollar oil, and pipeline-project from Central Asia to eastern China. (Singh; 2000:11)

China has the capacity to link Kazakhstan close to itself through trade as well as politics at the same time. The geopolitical situation near Western China is delicate, as even before the events of 2001, the whole region was afflicted by various crises. Xinjiang province shares a border with half a dozen countries including Afghanistan, Pakistan, India and most of the members of the Shanghai Cooperation Organisation many of those countries have both internal and external security problems. Since China's own problems in Xinjiang are ethno-religious and separatist. It is clear that China is wary of the disturbances involving people of the same religion or ethnic origin as its own Uyghur minority.

For the first time in its history, China is actually leading an international coalition. This leadership is not officially recognized but according to Yitzchak

Shichor “these are some indications” that this is the case. If nothing else, the budding leadership can be seen in China’s role as an initiator of the coalition (Shanghai Cooperation Organization). China has for more than two decades tried to be a rational and trustworthy player in international arena, and having such a strong position in an international organization is one of the best ways to prove it. Shanghai Cooperation Organization can be seen as proof that at last China is “presentable at court”. Although the Shanghai Cooperation Organizations only a regional organization, nobody can deny its importance when it comes to play its role in Central Asia.

At the same time China’s active role in the region has its consequences. If China becomes too active in its new role it might cause suspicion among other states and would thus be accused of pushing for hegemony. Since the ex-Soviet states in the region are sensitive to threats to their sovereignty, this kind of development could lead to the collapse of the Shanghai Cooperation Organization, which would jeopardize not only China’s future prospects in the region, but also the peaceful development in Central Asia.

The region is at the intersection of two key Chinese foreign policy priorities. Over the last two decades, China has focused, on the one hand, on “great power diplomacy” and on the other, on “surrounding border diplomacy”. In the first instance, China has worked at improving diplomatic relations with the “great powers”- with the United States, Russia, Japan and the European countries. China, however, also has given priority to relations with surrounding countries, pursued on the basis of good neighbourliness and peaceful coexistence.

Kazakhstan’s Perception

Kazakhstan’s other concern is to sell its natural resources to the world. This help Kazakhstan to improve its economy and to maintain good relations with developed countries. Kazakhstan’s rich energy resources are required by China which needs oil.

Kazakhstan in turn, assigns great importance to its economic relations with China, but in Sultanov and Muzaparova's analysis this is forward looking. According to them, if China becomes a major market for Kazakh products, a way for Kazakhstan to gain access to the East Asian economies, and a major investor in the Kazakh economy and if China chooses to make Kazakhstan a crucial trading "bridge" to Europe, it will emerge as a rival partner. (Legvold, 1999:23)

Kazakhstan holds an important geo-political position in the analysis of great power competition in the international system. In the present geopolitical reality, some strategic analysts have turned to Mackinder's Heartland theory and China's Xinjiang can be included in Mackinder's framework. Although China's population, commercial activities and political centre currently gravitates towards the Eastern coast of the Eurasian land mass, population growth may shift the centre of gravity westwards in the future. As early as in 1997, China noted that Central Asia has become region of 'high strategic significance' for the USA in ensuring Washington's dominant position in leading the world', Given that Central Asia links up Europe and Asia, control over Central Asia would mean the 'containment of Europe' and will have an impact on East Asia as well as containing Middle Eastern threats. This is accentuated by the economic importance of Central Asia. (ONG;2005:432)

Kazakhstan, China has moved forward by expanding border customs posts in Kazakhstan from only four in 1992 to eight in 1994. Horgos, the Ala pass, and other posts have been modernized, improving their ability to transfer goods in any season. Japan provided a credit of \$74 million to enlarge the handling capacity of the Friendship Station. Technologically advanced telephones have been installed, permitting conversations with any region of the world. Kazakhstan has also been developing container and conservation transport mechanisms. Communication ties have been also improved. (Guangcheng, 1998:124)

Similarly, in 1994 the Chinese government began construction of the second phase of the Lan Zhou-Xinjiang Railroad, increasing its transport capacity from 20 to

50 million annual tons, an important step in improving the Eurasian land bridge. The Chinese and Kazakh governments have signed a number of agreements directed at resolving transport issues. In February 1997, President Nazarbaev while in China, proposed increasing the transfer capacity between Friendship Station and the Ala post, the construction of another transit point, and the establishment of an air corridor over China permitting Kazakh flights to Japan, South Korea and Indonesia. Two years later, when the Kazakh President was again in China, the two sides committed themselves to expand their efforts to reestablish the ancient Silk Route.

At the same time China has established branches of the Chinese Bank and the Chinese Industrial Trade Bank in Almaty in order to resolve payment problems, something that it has done in few CIS countries other than Russia and Kazakhstan. The two countries have also created a bilateral economic and scientific commission, which by 2000 had met five times.

China welcomes participation of Kazakhstan and other Central Asian States in the economic development of northwest China, as Jiang Zemin made plain in July 2000. The Chinese government, he said, is developing a strategy for the exploration of Western China that opens new opportunities for economic cooperation with the Central Asian States. China welcome active participation in the construction of highways, railroads, airports oil and gas pipelines, electricity and communication networks”.

Central Asia unites the European and Asian continents at a key geographic junction and in this Kazakhstan plays a decisive role. For not only is Kazakhstan crucial in Central Asia, it is also a major Eurasian state, spanning the Eurasian continent and possessing the attributes of both a European and an Asian state. Due to Kazakhstan’s strategic location, it is developing long-term friendly relations with and maintains the mutual trust of surrounding countries. It hopes to translate its strategically important location into an increasingly significant role in international politics or if it wishes to become a genuinely significant regional power. Thus, the

external setting is a vital resource for Kazakhstan as it strives to reach its potential and China is a key source of support for a more prominent Kazakh role in the international arena. (Guangcheng;2002:108)

Kazakhstan- China Relations

Such growing mutual understanding and stakes have greatly facilitated evolution of joint strategies and multilateral forums all aimed at seeking solution to their common problems. As regards, China's foreign policy initiatives towards Kazakhstan, these have been broadly woven around two basic forums: (a) reviving the Silk Route as an umbilical cord between China and Central Asia and (b) creating new framework like the 'Shanghai Cooperation Organisation' forum which seeks to project itself as an alternative paradigm for evolving the 21st century world order. For China, these forums remain geared to achieving the core national interests of China in Kazakhstan which includes: (a) ensuring China's continued access to Kazakhstan's energy resources (b) ensuring that the ethnic linkages between Kazakhstan and Xinjiang do not have any negative impact on China's internal security and external ties and (c) ensuring that external powers are not able to build their presence in Central Asian Republics in such a way so as to undermine China's own course of actions and make China vulnerable in any manner.

Firstly, considering that China shares 3,500 km joint borders with Central Asian Republics, the foremost strategic concern of Beijing over this region has been to ensure the stability of this Northwestern frontier so as to create more favorable external environment that is essential to sustain China's modernization.

Secondly, in view of Washington's attempts to using issues like Tibet, Taiwan and human rights to seek its goals of westernizing, weakening and splitting China, it becomes imperative for China to ensure that any such engineered social unrest does not affect its security and stability. By strengthening ties with Central Asian Republics, China must suppress separatists' elements by efficiently handling separatists and religious extremist infiltration from these countries.

Thirdly, China's engagement with Kazakhstan provides Beijing with a buffer zone against the Eastward expansion of NATO. Since the Kosovo war during mid 1990s, China has clearly felt squeezed from both West (NATO's eastward expansion and its new strategy) and East (US-Japan military alliance and its new interpretations).

Finally, the fourth strategic concern of China is to seek a stable and reliable energy supply. Its rapid economic growth has made China hostage to energy supplies and considering abundant oil and gas deposits in Central Asia, evolution of a reliable supply demand relationship based on fair and reasonable prices will be in the common interest of both China and these Central Asian Republics. (Singh;2000:10)

Though, Kazakhstan has since surrendered all its nuclear weapons and joined the NPT as a non-nuclear state, it still continues to wield influence due to its size, economy and goodwill in the west. Bilateral relations between China and Kazakhstan have entered primary stage following the joint statement on neighbourly relations announced by the two presidents during Nazarbayev's first formal visit to Beijing in 1993. Since then, Sino-Kazak bilateral trade has witnessed a steady growth between 10 to 12 percent, and it crossed \$ 500 million mark during 1997 when it made Kazakhstan China's second largest trading partner amongst the countries of Commonwealth of Independent States next only to Russia. During 1999 alone, their bilateral trade showed an impressive growth by 80 percent and crossed the figure of \$1 billion.

Their cooperation in oil exploration and oil exports remains to be the most critical pillar of their mutual trade and commerce. Kazakhstan's Petroleum production has grown at about 12 percent and China has since emerged as a major player in its oil exploration efforts. The two countries had signed their first cooperative agreement at Almaty during 1997 when China agreed to jointly develop Kazakhstan's refining capability, promising to invest \$9.5 billion in that country.

In 1998, the two had begun to operate the Uzen oil field and the Aktyubinsk oil and gas field in Kazakhstan. The China National Petroleum Corporation (CNPC) purchased 60 percent of stake in the Aktobemunaigas oil production enterprise for \$325 million and pledged to invest another \$4 billion in next 20 years. By 2010, the annual production of Kazakh oil is expected to reach 10 million tons, placing Kazakhstan amongst the top ten Petroleum production countries in the world. Similarly, these two countries have also been debating on long-distance oil pipelines. Once complete, these pipelines will allow an increase in annual crude oil exports to China from the present 100,000 tons to 2.5 million tons. In addition, CNPC is now involved in developing two more oil fields in Kazakhstan.

The steel industry has been another promising area in Sino-Kazakh bilateral cooperation. Although China has emerged as world's largest producer of steel and its annual crude steel output exceeds 100 million tons, it lacks high-standard, high quality steel products, especially thin steel products where Kazakhstan has an advantage. In 1997, China's steel output was up by 8 percent over the previous year, and exports of steel products accounted for half the total shipments. Each year about 300,000 to 500,000 tons of steel products are exported to China. China's building corporation is slated to go to Asthana, the new capital to take part in some of these projects. Similarly, seeing that the Almaty-Urumqi railway has now been in use for some time, the two governments have been deliberating about extending this the railway line to Beijing. Besides, the two have been deliberating on how Chinese enterprises will invest in Kazakhstan's agricultural products processing industries, daily necessities production, tourism and medical fields. These positive interactions between the two largest countries of this region have set in motion China's cooperation with other Central Asian Republics. (Singh ;2002:29).

A good example that China has been actively promoting bilateral military exchanges and cooperation with Central Asian states is the case of Sino-Kazakh military cooperation. As early as 1993, a joint communiqué between China and Kazakhstan specifically stated that 'both sides agree to facilitate the contact and

promote the relationship between their military and to conduct military exchanges according to international practice so as to enhance mutual trust and cooperation the military field. In September 1995, the Chinese President Jiang Zemin and the Kazakh President Nursultan Nazarbayev issued a joint communiqué at the end of the latter's visit to China, affirming that in the sphere of military relations, links between the defence ministries of the two nations should be established and developed and efforts at working out an agreement on reduction of military forces along the borders and strengthening the trust in the military field should be speeded up. Military technological cooperation should be carried out on the basis of mutual benefits and taking each country's international obligations into considerations.

In 1995 and 1996, military exchanges were conducted between China and Kazakhstan on a regular basis. A Chinese military delegation from the garrison of the Xinjiang Uighur Autonomous Region visited Kazakhstan in August 1995. In May 1996, both the Kazakh Foreign Minister and Defence Minister received in Almaty Fu Quasnyou, the Chief of Staff of the People's Liberation Army (PLA) visiting Kazakhstan. In October 1996, the Chinese Defence Minister Chi Haotian met with the visiting Kazakh Defence Minister Alibek Kasymov in Beijing and discussed cooperation between the two armed forces. The Chinese Premier Li Peng also received the Kazakh Defence Minister. (Xing, 2002:214).

On 24 May 1995, the Kazakh Foreign Ministry announced that all nuclear weapons deployed on the territory of Kazakhstan in the Soviet era had been either transferred to the Russian territory or destroyed. Shortly before Kazakhstan became a nuclear weapon free state, on 8 February 1995, the Chinese government announced its security assurance to Kazakhstan. In a brief announcement, the Chinese government stated, China fully understands the desire of Kazakhstan for security assurance. The Chinese government has unconditionally undertaken not to use or threaten to use nuclear weapons against non-nuclear states or nuclear weapon free zones. This long standing principled position also applied to Kazakhstan. The Chinese government

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urges all nuclear weapon states to undertake the same commitment so as to enhance the security of all non-nuclear weapon states, including Kazakhstan. (Xing 2002:207)

In short Kazakhstan policy in China and Chinese policy in Kazakhstan are governed by economic consideration. The rising threat of ethno-nationalism in the neighbouring Kazakhstan is a matter of concern of China in various ways. Thus it wants the present status quo to continue in Kazakhstan because it ensures tranquility on its border and good relation with neighbours.

CHAPTER - 3

ECONOMIC LINKAGES

Central Asia has been, traditionally a sphere of geopolitical interest of China. During the Han rule, China maintained close contacts with the western world through the Silk Route, which passes through the settlements of Turkistan (in the territory of modern Kazakhstan). (Akataeva; 2006:45)

Both Kazakhstan and China have a long history and tradition of economic cooperation. The Silk Road is a historical testimony of traditional economic and cultural exchanges between Kazakhstan and China. (Guangchang; 1998:43)

Sino-Kazakh Economic Relations; A Historical Prospective

The Sino-Kazakh trade and economic relations has been influenced by the Russian empire's relations with the Qing Empire, republican China and People's Republic of China (PEOPLE REPUBLIC OF CHINA) in which Kazakhstan participated not as the sovereign partner, but as an administrative territorial part of Russia. Specific conditions of this relationship opened opportunities for trade and economic contracts. On 27 May 1920, a protocol was signed in Kuldja determining conditions of trade relations between Soviet Russia and China on Turkistan and Xinjiang border. As in this document, an agency of the Soviet authority in Kuldja and an agency of ill authority in Verney (Almaty) were established to decide upon the diplomatic and trading issues. Ili protocol had the political and legal importance for the countries of the east. It laid down a strong basis for commercial relations of Russia with Xinjiang region of China.(Akataeva; 2006:47)

At the end of 1970s, social economic and political reforms were implemented in the People's Republic of China (People Republic of China). Now the foreign policy and external economic doctrine of China began to change. From the beginning of 1980s, Chinese leadership took new initiatives in terms of dialogue on cultural, economic and political questions. Since 1983, frontier trade was being restored, but within the framework of northeast provinces of China and the Soviet Far East. In January 1986, the

State Council of PEOPLE REPUBLIC OF CHINA decided to restore trade relations between the USSR and Xinjiang Uyghur Autonomous Region of China. (Ibid)

After the collapse of USSR and formation of the new independent states, a new era of cooperation between Kazakhstan and China began. With the joint efforts of heads of both the states, Friendly, good-neighbourly relations and mutually advantageous cooperation between the two countries continued to develop and strong partnership was established between the two countries. (Akataeva; 2006:48)

Post-independence Economic Reforms in Kazakhstan

Economic reforms in Kazakhstan encompass a wide range of areas including both internal and external dimensions like institutional reforms in the sphere of property; change in the function of state in resource allocation and coordination of production, consumption and distribution process, formation of market and market prices signals through privatization, creation of monetary mechanism, tax and budget reforms and reforms in foreign economic sphere.

Main elements of economic reforms in Kazakhstan are:

1. Price reform
2. Financial sector reform
3. Labour market reform
4. Enterprise reform and privatization
5. Foreign trade reform
6. Tax and budget system reform
7. Agrarian reform.

Inflow of FDI to Kazakhstan, 1992-2001

(in million dollars)

YEAR	FDI INFLOW
1992	100
1993	228
1994	635
1995	964
1996	1137
1997	1321
1998	1151
1999	1468
2000	1245
2001	2600

Source: Economic Survey of Europe, 2002, no.1p.245.

China's Economic Reform

Chinese economic reform began in late 1970s. The Chinese economic reform process has been a gradual one. Unlike most of the transition economies, China's reform process is not much burdened with mixed task of political and economic transformation. Instead it is tailored to the vision of earlier East Asian Developmental dictatorship that laid the foundation of modern economy before eventual political liberalization and a shift to multi-party competition. (Walder; 1999:973)

In 1978, open door policy was introduced by Deng Xiaoping in order to decentralize the economic system and attract overseas investment into China.

The main elements of Chinese foreign trade reforms are:

1. Decentralization of decision making
2. Using tariff and non-tariff barriers to regulate trade
3. partial convertibility of renminbie.
4. Encouraging FDI.

Impact of Kazakhstan's Economic Reform on Kazakhstan-China Trade and Economic Relations

This is the age of globalization and economic reforms (liberalization, privatization and globalization) are undoubtedly helpful for any two countries in the world, irrespective of their level of development. This logic is applicable in the context of China and Kazakhstan as well.

China's trade with Kazakhstan was only 85 millions rubles in 1990s, 2% of Kazakhstan's total foreign trade that year. (Liu, 1998, p.180). But after independence, when Kazakhstan started implementing its economic reforms, the trade volume increased significantly. For example, the total trade between Kazakhstan and China was valued at \$ 430 million in 1992, 22% of Kazakhstan's total foreign trade. (The China Quarterly, March 1994: 309)

With the Collapse of USSR, a totally different geopolitical and geo-economic environment emerged in which Kazakhstan and China started confronting both challenges (like border disputes, ethnic conflicts, transportation problems etc) and opportunities (of exploiting mutual economic potential) while developing trade and economic relations.

Chinese Compulsions for seeking Engagement with kazakastan

From Chinese side, the reasons are as follows :

i) While energy reserves of the world are shrinking on the one hand and the Chinese dependency on energy sources (especially oil) is growing on the other, the vast energy resources in Kazakhstan have motivated China to establish powerful economic relations with Kazakhstan in order to ensure its access to Kazakhstan's energy sector. China has been an oil importer since 1993 and its demand for oil is far in excess of its domestic production. (Warikoo, 2000:262) Realizing the Chinese dependency on outside world, then prime Minister Li Peng, in an article on China's energy security, declared that China must face the reality that its domestic oil production will not be able to "meet the

demands of economic development”. (Burles, 1993:23). China’s level of oil production in early 2000, was about 3.3 million barrels per day, which leaves a deficit of some 300,000 to 500,000 barrels per day. (Andrew, 2000:305) In view of China’s rapid economic growth and free market, its domestic oil demand is expected to rise by around 4% annually thus creating a significant challenge for its energy security in future. (Singh; 2000:11-12)

So, given its rapid economic growth and present population growth, China needs to import energy at an unprecedented scale because its domestic energy sector is unable to meet the growing energy requirement. This justifies the rising interest of China in Kazakhstan’s huge energy sector. In 2001 Kazakhstan was transferring 95,000 barrels per day to the Chinese border by rail. (The Times of Central Asia; 2001:5)

- ii) The most important reasons that compels China to deeply engage itself with Kazakhstan is to “efficiently handle separatist and religious extremist infiltration and their negative impact in the Xinjiang-Uighur region. (Patnaik;2002:7)
- iii) China finds a promising market outlet in Kazakhstan for its finished goods like machinery, equipment and consumer goods.
Thus, China is bound to maintain a good relationship with Kazakhstan, both economically and politically.

Kazakhstan’s compulsions for seeking Engagement with China

From Kazakhstan side , the reasons are as follows

1. Kazakhstan can draw policy guidance and large investment funds from China for its smooth and successful economic transformation.
2. Kazakhstan views China as a strong alternative to Russia to lessen its overdependence on latter.
3. Kazakhstan is strengthening its economic engagement with China in order to compensate the downward inflow of investment funds resulting from the “down trend of US involvement since 1995”. (Singh; 2000 :11-14).

4. Kazakhstan's economic co-operation with China allows the former to exploit the large market in the latter. Due to geographical proximity, Chinese market is a profitable choice for Kazakhstani businessman and exporters.

All the above factors compel both Kazakhstan and China to forge a healthy trade and economic relations among themselves.

Xinjiang Plays Key Role between Kazakhstan-China Relations

Xinjiang plays a key role for China, Kazakhstan and entire Central Asian region. (Khan; 200:177) Xinjiang is lying at the heart of 'Silk Route' between China and Kazakhstan it is the only province of China which shares common border with Kazakhstan. The Xinjiang-Uighur Autonomous Region has been one of the poorer regions of China. The economy of Xinjiang was kept isolated for a long time from Kazakhstan, particularly due to erratic Sino-Soviet relationship. With improvement in the Sino-Soviet relationship, Xinjiang ended its long isolation from the Central Asian Region when "Open door policy" was introduced in 1978 throughout China. Due to this open door policy, Xinjiang for the first time engaged itself in direct import-export activities in 1981. (Melet, 1998:233)

Central Asia and China trade refers primarily to the growing Kazakhstan-Xinjiang relations. (Doriun;1997:477) Kazakhstan-Xinjiang trade volume constitutes a large part of total Kazakhstan-China trade volume. For instance according to official figures, total trade turnover between Kazakhstan and China in 1996 was about \$500 million of which Xinjiang's participation was more than 90%. (Raczka; 1998:395). It shows that Xinjiang even being just a small part of China, shares biggest chunk of China's total trade volume with Kazakhstan.

After the disintegration of USSR, the Chinese government opened up the border of Xinjiang for trade with the newly independent Kazakhstan. (Speed, Liao and Dannreuther, 2002:55)

Xinjiang province plays in the immense economic significance in Kazakh-China economic relations. It can be understood clearly by looking at the following facets:

- a) Xinjiang's importance for China as well as Kazakhstan, and the importance of Kazakhstan-Xinjiang trade in the overall Kazakhstan-China trade.
- b) Xinjiang has enough oil and gas reserves to make it economically important for China as a whole. Apart from oil and gas, Xinjiang has good potential for agriculture, animal husbandry, cotton, construction materials and non-ferrous metals. (Doriun; 1997:469) Due to its strategic location on Silk Route it is crucial for China to export and import goods to and from the countries on the 'Silk Route'.
- c) For Kazakhstan, Xinjiang is gateway to China and other East Asian markets. Stability and economic development in Xinjiang are, therefore, prerequisites for better international economic relations of Kazakhstan.
- d) As the Xinjiang province is important for Kazakhstan. Kazakhstan is also economically and politically very crucial for Xinjiang as well as China.

Bilateral Trade and Economic Relations

After the independence of Kazakhstan the economic and trade relations between Kazakhstan and China have been based on the following four aspects.1 Rapid growth of bilateral trade, 2. Diversified trading channels. 3. Expanding technical and economic cooperation and 4. Facilitating communications.

According to Chinese official statistics, in 1992, China's foreign trade with five Central Asian states was a total of US \$475 million. Out of this, China's trade with Kazakhstan accounted for US \$380 million, i.e, 20% of Kazakhstan's foreign trade in 1992. (SWB/FE/1245/G/4, 15 Oct 1993)

Of the five Central Asian countries, Kazakhstan remained the largest trading partner with China. Its annual growth rate was US \$434 million. (Liu ;1998:181) But in 1994, China's trade with Central Asian states was US \$577 million, which was 5% less than in 1993. in particular, China's trade with Kazakhstan came substantially down to US

\$335 million, 22% less than the amount in 1993. This was due to trade adjustments in export and import policy between Kazakhstan and China, But on the other hand, exports of some shoddy consumer goods made in China to Kazakhstan in 1993 seriously damaged the reputation of Chinese exports.

Sino-Kazakhstan Trade, 1992-1997

(in million dollars)

YEAR	FDI INFLOW
1992	363
1993	435
1994	363
1995	390
1997	528
2002	313
2004	758.1
2006	1924.9

Source: IMF, "The People's Republic of China" 1998, Trade Statistics Yearbook August 1998, p.158 (United Nations Commodity Trade Statistics data base).

Though there has been slow growth over the years in the volume of trade between Central Asian states and China, still there is scope for the increase of trade relations between them. In 1997, China's total trade with Kazakhstan was \$ 528 million and in 2004, it was \$ 758 million. The above growth rate shows that they can be good partners in economic fields in the coming years.

During Soviet times, China's trade with the Kazakhstan was used to be dominated by illegal border trade. After the independence of Kazakhstan, China quickly seized the opportunity to start developing bilateral trade at both the local and state levels. In the last decade, various diversified trading channels between China and Kazakhstan have been carefully nurtured. Diversified trading channels are important for both China and

Kazakhstan to expand bilateral trade due to of the nature of the traditional trade. Local trade, border residents markets, and tourist purchases have all been developed. (Behera ; 2006; 124).

Tourist purchase has become another new interesting trading channel between Central Asian states and China. Yilin, known as the 'flower city north of the Great Wall', was the first city to develop tourist purchase as a trading channel. Because of its convenient geographical location and a good transport service across the borders, Yilin quickly became a hot spot for tourist purchasers from Central Asia. In 1994-1995, tourist-purchase from Central Asia was extended to other parts of China. The Almaty-Beijing flight has made large and medium-sized cities in northern China easily accessible to the Central Asian tourist traders.,(Ibid)

The economic and technical cooperation between Kazakhstan and China developed after the Chinese premier Li Peng made a state visit to the Central Asian states in 1994.(China's basic policy towards Central Asia, Beijing Review, May 2-8; 1994; 18-19) The delegation led by Premier LI Peng was accompanied by a large group of Chinese entrepreneurs. These entrepreneurs signed a number of agreements, contracts and letters of intent with their counterparts in Kazakhstan. China contracted to purchase fertilizer from Kazakhstan. China and Kazakh governments further discussed extending their cooperation in metallurgy, chemical fertilizer and tractor manufacturing prospecting, petroleum exploitation and refining. The development of communications is another important area of Kazakhstan- China bilateral trade and economic relations.

The railway port of Alataw pass, which is situated on the Sino-Kazakhstan border, is now the largest railway port in northwest China. It is designed to have the capacity to handle 3.5 million tones annually in the short and medium term and 5.9 million tones in the long term. Already in 1992, the freight passing through this railway port reached over one million tones. The year 1993 saw a further increase in the freight handling of this port. In September 1994, Kazakhstan became the first among five Central Asian states to sign an inter-governmental agreement with China for the use of Lianyungang Port for

two way transport of goods between Kazakhstan and the Asia-Pacific regions. It has also greatly improved transportation facilities between Central Asia and East Asia, including countries such as Japan, Korea and the Southeast Asian states, thus facilitating trade between these two regions in Asia. (Liu; 1998:185)

Opening trading ports and constructing necessary facilities in those ports are indispensable in developing trade and economic cooperation between China and Central Asia. By 1994, the Xinjiang Uighur Autonomous Region had already opened 14 land and air trading ports to China's neighboring states sharing common borders with Xinjiang. Eight of them are for the Central Asian States and the rest for Russia. Three of the most important parts, i.e., Horgos, Alataw Pass and Tuerdoute, are the passage ways to Kazakhstan. The Alataw pass road trading port complements the railway port and mainly serves the border trade.(Behera 2006; 128).

**CHINA' ECONOMIC STAKE IN KAZAKHSTAN, AS MEASURED BY
BILATERAL TRADE (US million \$)**

		Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	Turkmenistan	Total
	Exports	2.2793	0.3389		0.0195	0.0409	2.6786
1992	Imports	1.4117	0.1363		0.0080	0.0041	1.5874
	Total	3.6910	0.4752	0.3548	0.0275	0.0450	4.5935
	Exports	1.7169	0.4280	0.3655	0.0648	0.0385	2.6137
1993	Imports	2.6304	0.1146	0.6587	0.0588	0.0080	3.4705
	Total	4.3473	0.5426	1.0242	0.1236	0.0465	6.0842
	Exports	1.39	0.5146	0.2993	0.0068	0.0367	2.2474
1994	Imports	1.96	0.7221	0.7545	0.025	0.0759	3.5375
	Total	3.35	1.2367	1.05	0.0318	0.1126	5.7811
	Exports	0.7545	0.4757	1.07	0.1462	0.1127	2.5591
1995	Imports	3.16	0.7099	1.23	0.0924	0.0633	5.2556
	Total	3.91	1.1855	2.31	0.2386	0.1760	7.8201
	Exports	0.9531	0.3815	0.6867	0.0764	0.0845	2.1822

1996	Imports	3.6459	1.491	0.3681	0.0408	0.302	5.5760
	Total	4.5990	1.8725	1.0548	0.1172	0.1147	7.7582
	Exports	0.9463	0.613	0.7060	0.1105	0.1163	2.9443
1997	Imports	4.3278	1.4138	0.3602	0.0918	0.0361	6.2297
	Total	5.2741	2.0291	1.0662	0.2023	0.1524	8.7241
	Exports	2.0500	0.5788	1.7200	0.1104	0.1029	4.5621
1998	Imports	4.3100	0.3238	0.2569	0.0819	0.0222	4.9948
	Total	6.3600	0.9026	1.9800	0.1923	0.1252	9.5601
	Exports	4.9400	0.2739	1.0300	0.0230	0.0747	6.2426
1999	Imports	6.440	0.1294	0.3200	0.0574	0.0202	6.9670
	Total	11.3800	0.4033	1.3500	0.0804	0.0949	12.3086
	Exports	5.9848	0.3943	1.1017	0.0679	0.1210	7.6697
2000	Imports	9.5821	0.1203	0.6744	0.1038	0.0406	10.5212
	Total	15.5700	0.5147	1.7761	0.1717	0.1616	17.0941

Sources: Statistics for Kazakhstan, Uzbekistan, Tajikistan and Turkmenistan are from the Head Customs Administration China, Customs Statistics, 1996, no.12 pp.3-4 and 1997. p.12, Chinese Diplomacy Review, 19931-995, Chun-tu-Hsueh and Xing Gungcheng, China and Central Asia, Chinese Social Science Literature, Publishing House, 1998,p.117; Chinese Ministry of Foreign Affairs website <http://www.fmprc.gov.cn/chn/3016html>

In 1992 Chinese-Kazakh economic relations was \$369 million dollars two way trade between China and Kazakhstan had grown to \$1.1 billion in 1999. (Qjingjian, 2001:1)

According to the CIS international statistics commission in 1995, China occupied the third place in Kazakhstan's foreign trade, fourth place in Kyrgyzstan's, fourteenth in Uzbekistan's, twenty-second in Tajikistan's and thirty third in Turkmenistan's foreign trade. The structure of trade also has its particularity: the Central Asian states export to China largely raw materials, including ores, chemical goods, cotton, chemical fertilizers and the like, China sells them goods for household consumption food, home appliances, etc.

Separate volumes of trade between China and Five States of Central Asia as compared to the overall volume of foreign trade of the given states between 1994 and 1997(US billion \$)

		Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	Turkmenistan
	Overall	67.24	51.52	6.57	9.74	23.95
1994	Trade/China	3.35	1.24	1.05	0.02	0.11
	Relative size	4.9	2.4	15.9	0.32	0.04
	Overall	87.16	55.69	9.31	15.48	24.57
1995	Trade/China	3.91	1.19	2.31	0.24	0.18
	Relative size	4.5	2.1	24.8	1.6	0.7
	Overall	105.83	93.11	17.03		
1996	Trade/China	4.6	1.87	1.05	0.12	0.11
	Relative size	4.3	2	6.2		
	Overall	136		12.6	15.85	18.8
1997	Trade/China	5.27	2.02	1.07	0.20	0.15
	Relative size	3.8		8.4	1.3	0.7

Sources: CIS Statistical yearbook for 1995, p.63; Economic News for CIS, Russia, 1998, no.4, Sinhua Agency, Alma-Ata, April 17, 1996; Chun-tu-Hsueh and Xing Guangcheng, China and Central Asia, Chinese Social Science Literature Publishing House, 1998,p.118.

Current volume of trade between China and Kazakhstan

Year	Trade (in billion US dollar)
2000	1.5
2003	3.3
2004	4.46
2006	8.3
2007	13.8

Source: Kazakh. News Bulletin, Embassy of the Republic of the Kazakhstan to the US and Canada May 20,2004, vol.1,23.

Still, enhancing China's economic cooperation with Kazakhstan represents an important component of Chinese foreign policy. To this end, Chinese leaders have articulated a clear set of goals. First, China seeks balanced trade pursued through normal trading mechanisms and by means intended to achieve mutual benefit. Second, it wants to convert barter trade into regular cash purchases, buttressed by improved accounting mechanisms. Third, it intends to foster economic cooperation to meet market demand and to use local Kazakh resources to enhance the activity of key enterprises and to raise the competitiveness of their products. Fourth, China wants to participate in constructing a new "Silk Road" as part of an effort to expand transport facilities substantially across Eurasia. Fifth, it is ready to provide the countries of Central Asia with modest but symbolically significant quantities of foreign aid. And, sixth, it will promote multilateral cooperation among China, the Central Asian states, and the larger international economic community. (Guangcheng; 2002: 124)

Evolution of Bilateral Trade:

Bilateral trade, After the collapse of USSR, between Kazakhstan and China trade and economic relations, has been increasing rapidly. Following table shows that in 1993 while the Kazakh export to China increased (by 86.65%), Kazakhstan had trade surplus of US \$50.2 million dollars vis-a-vis China. In 1994, both Kazakhstan's export to and import from China decreased resulting in a fall in total trade turnover. Of course, the

trade volume revived in 1995, but it could not reach to the 1993 level. The table shows that in 1994 and 1995 also, Kazakhstan enjoyed trade surplus.

Kazakhstan's trade with China, 1992-95
(in million US dollars)

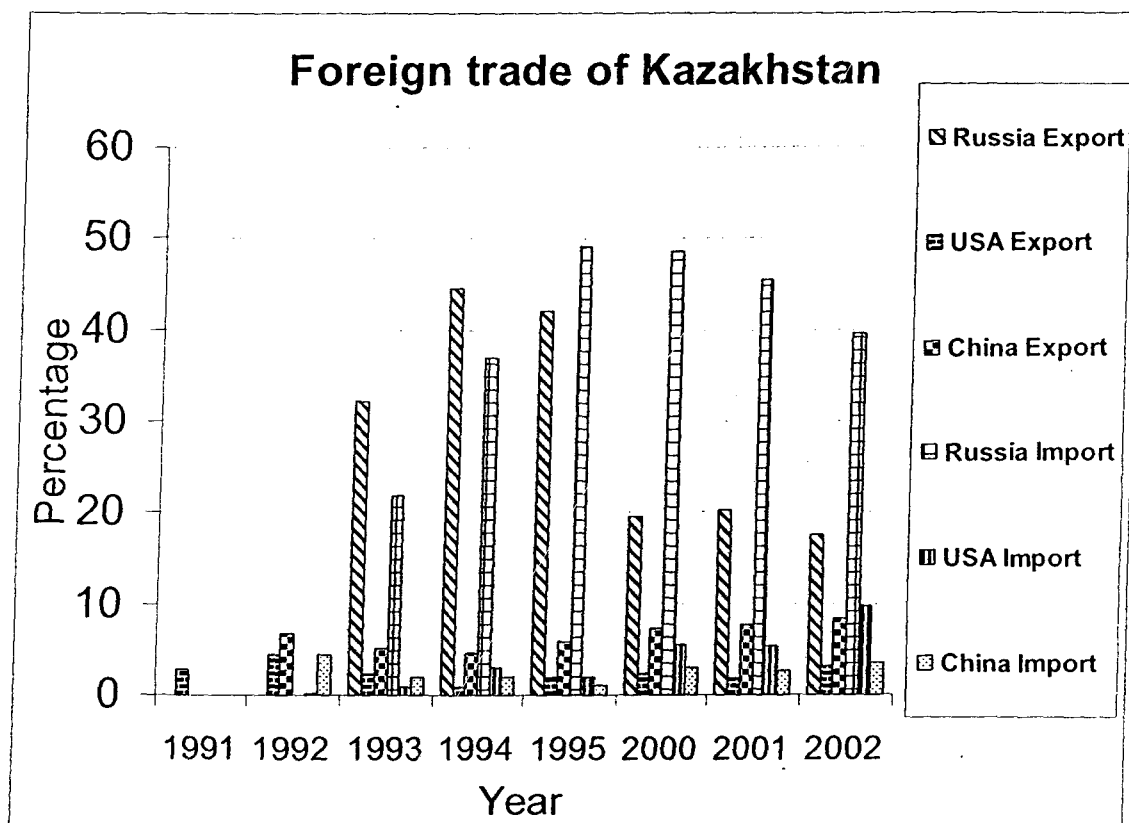
Year	Exports to China	Imports from China	Total
1992	128.1	244.7	372.8
1993	239.1	188.9	428.0
1994	148.9	69.8	218.7
1995	297.0	34.7	313.7

Source: ADB: Growth and Change in Asia and Pacific, vol. xxxii, Oxford University Press, New York, pp.186-187.

To be more precise, in 1993, though China- Kazakhstan trade volume increased, the Chinese share in Kazakhstan trade declined, and in 1994 both trade volume and Chinese share in Kazakh trade declined. This decline was due to two reasons.

1. Both countries were making trade policy adjustment which created drastic change in import and export commodity composition in bilateral trade.
2. The anti-Chinese feeling in Kazakh population as a reaction to the supply of shoddy consumer goods by China.

Following table shows that even Kazakhstan's share of trade within CIS has seen a declining trend, Russia remained the leader in the regional distribution of Kazakhstan's foreign trade. It is interesting to mark here that, China could manage to perform better than USA with more share of Kazakhstan's exports and imports.



Source: Khasnova, Markhamat, "Kazakhstan: Foreign Trade Policy" in Boris Rumer and Stanispav Zhukov (eds.), *Central Asia: The Challenges of Independence*, pp.188-189.

Due to its geographical proximity, Kazakhstan's share in cross border and barter trade is higher than any other Central Asian country. As to the nature of goods exchanged, exports to China (from Kazakhstan) include primary raw materials and some heavy machines and vehicles. In turn, a variety of domestic appliances and electric goods, textiles, food stuffs and other consumer goods are imported into Kazakhstan from China. (Raczka; 1998:395)

Problems:

Despite efforts by Kazakh and Chinese governments, the ethnic challenge in their common border areas (especially Xinjiang) is still not dead. The result of poll survey by *The Times of Central Asia* (Newspaper) in 2001 regarding the wish of its Xinjiang readers online reflects the gravity of situation. In two weeks, the news paper agency

received a total of 11,922 votes, out of which 95% were cast in favour of the option of proposed independence of Xinjiang, while only 1 % were in favour of the option of a greater autonomy for Xinjiang. (Fiaccoriz; 2001:3) Yet it is true that the ethnic challenge is presently dormant but not dead. The presence of the ethnic challenge is negatively influencing the growth of Sino-Kazakh trade and economic relations.

Trade and economy relations between China and Kazakhstan is getting slow due to the inherent weakness of Kazakhstani economy which is the by product of Soviet economic legacy. This factor keeps the pace of economic cooperation very slow. Despite several problems, the prospects of Sino-Kazakh trade and economic relations have bright and promising prospects. Geographical proximity is the great advantage for the promotion of Sino-Kazakh trade and economic cooperation. This factor is helpful in various manners:

1. Geographical proximity lessens the transportation cost of trade.
2. Telecommunication cost in conducting trade is also low.
3. Market related information is easily available.
4. The SCO is an important factor in strengthening bilateral trade and economic relations between China and Kazakhstan.

Both Russia and China came on one platform for cooperation in the region- the Shanghai Cooperation Organisation. In Alma-Aty, Kazakhstan, on July 3, 1998, the parties agreed that the following basic principles must be observed in developing economic cooperation of equality and mutual benefit;

- Provide internationally accepted trade terms to each other in order to expand their volumes;
- Encourage and support various forms of economic and trade cooperation in a local and border areas as well as cooperation between large enterprises and large companies of the five countries.
- Improve their respective investment environment so as to create condition for boosting investment in the economic projects in their countries.

The parties also held that it is necessary to intensify and encourage large-scale and long-term cooperation in all economic fields, including the construction of oil and gas pipelines and the railway, highway, water and transport links. The parties would give priority to upgrading and utilizing the existing transport and pipeline facilities between them or leading to other countries. While the preference should be given to the profitability, reliability and safety of both ongoing and future projects, due consideration should be given to the national and economic interest of the countries along the roads of these projects.

In terms of economic relationship between Kazakhstan and China since the independence of Kazakhstan, it can be said that their trade relations have grown over the years. As Kazakhstan is looking beyond Russia's help, China emerges as the natural partner. Though there are many countries including its neighbors which are pushing themselves into the region to get the opportunity to exploit the region's natural resources. However, a strong presence of Russia in the region and gradual US involvement in the area may hamper China's economic push into Kazakhstan. This is being handled by cooperation with Russia as China is participating with Russia in many economic activities in Kazakhstan. In case of US involvement in the region, China should find common ground with both the Central Asian states and Russia in order to ward off US threat to Chinese interests in the region.

CHAPTER - 4
BORDER SETTLEMENT AND ROLE OF SCO

Border disputes have been a long time problem in Sino-Soviet relationship. The disintegration of the former Soviet Union has, among other things, changed the context of ongoing negotiation for the settlement of disputed borders. The emergence of the five Central Asian Republics, close to China's border, has considerably altered the geopolitics of the region. China's border dispute with the former Soviet Union turned into China's disputes with four independent states—Kazakhstan, Kyrgyzstan, Russia and Tajikistan.



Source: http://www.x3n.org/uploaded_images/kazakhstan-map-704218.jpg.

Border Disputes in Central Asia: A Historical Perspective

China had a dispute with Russia since late seventeenth century. During the period of rift between former Soviet Union and China, Chinese maps showed parts of Kyrgyzstan, Tajikistan and Kazakhstan as far as Lake Balkash, and the Pamirs, within the borders of China. China claimed that Tsarist Russia had annexed thousands of square miles from China. In recent times, China and the former Soviet Union had resumed border talks between the two, both in the eastern and western sectors. The process of negotiation, which started in 1986, continued after the break up of the Soviet Union. (Stobdan 1994: p.13).

China and the former Soviet Union shared borders of over 7,000 kilometers in length for historical reasons. There were quite a few areas of dispute along their borders during the cold war. When Sino-Soviet relations were tense, the two countries stationed large and heavily armed troops in the border areas. They even had military clashes in some areas of contention such as the Zhenbao island. However, sporadic meetings on border issues between Chinese and Soviet officials took place during the almost 30 years period of deteriorated relations between the two countries from the early 1960s onwards, but with little concrete result. In 1962, skirmishes on the Kazakh-Xinjiang frontier had led to the construction of military bases and runways in borderlands across the divide. Therefore, thousands of Muslim inhabitants in Xinjiang (mainly Kazakhs and Uighurs) encouraged by both the Soviet propaganda and the excesses of the Chinese cultural revolution- fled across the frontier to the USSR. Beijing's calls for a general Soviet withdrawal of forces from the Sino-Soviet frontier and from Mongolia were ignored.

After coming into power, Mikhail Gorbachev radically changed the pace of Sino-Soviet relations. Gorbachev showed concern to the border and security problems and announced the partial withdrawal of Soviet troops from Afghanistan and Mongolia. It was agreed to restart border negotiations the same year and a partial agreement was reached in 1988, in case of Mongolia. (Yasmin 1998: 231). The obstacles were lifted progressively in the following years, the final one being the withdrawal of Soviet troops from Afghanistan in 1989. The willingness to re-negotiate treaties considered by China as

'unequal' was highly indicative of the fundamental changes taking place in Sino-Soviet relationship. The relaxation of relations between China and the Soviet Union in mid - 1980s helped in reducing the tensions along the border and subsequent border talks made progress in the resolution of the border problems.

The Beijing summit between Gorbachev and Deng Xiaoping in May 1989 symbolized the normalization of Sino-Soviet relations. It confirmed the lifting of 'obstacles' and announced the desire to solve border conflicts inherited from the past. The summit also established the basis of cooperation at the regional and national levels. It guaranteed a peaceful environment allowing economic development in China and the continuation of reforms in the Soviet Union. Then on 16 May 1991, the Sino-Soviet agreement on the eastern section of their borders was signed.

In last few years of the former USSR border talks had resumed in the eastern and western sectors of the Sino-Soviet former, Russia shares only a 56 kms stretch and the rest of 2805 kms include 1533 kms with Kazakhstan, 858 kms with Kyrgyzstan and 114 kms with Tajikistan. The topographical complexities made the demarcation of border difficult in the past.

The Disintegration of the former Soviet Union

China's most important concern is the security of the border region as many Uygurs live in Kazakhstan and there is also a Kazakh minority in China and both have their relatives on the other side of the border. This situation frightened China especially in 1990s. However, after establishing good relationship with the regional countries and establishment of the Shanghai-5, China has become less troubled in this context.(Ercilasun, Dec 2004: 1-4).

China's border disputes with the former Soviet Union now became China's disputes with four independent states-Russia, Kazakhstan, Kyrgyzstan and Tajikistan. How to settle the border disputes with the newly independent CENTRAL ASIAN REPUBLIC became an important aspect of the China's security relations with Central

Asia. Soon after their independence, China accorded recognition and established diplomatic relations with all the Central Asian Republic. In the first week of Jan 1992 while doing so, China received a pledge from the Central Asian Republic that “PRC is the sole and legitimate government of China and Taiwan is an inalienable part of China”. The Central Asian Republic not only endorsed China’s territorial integrity describing Tibet and Xinjiang as parts of China, but also supported ‘One China Policy’ committing themselves not to establish any official relations with Taiwan. They also expressed their support to China’s nationalities policy and opposed religious extremism and separatism, at the same time undertaking not to allow the Uighur separatists operating from within their territories.

Three out of five Central Asian Republic are China’s neighbours Kazakhstan, Kyrgyzstan and Tajikistan share a common border of more than 3300 kms. with China. A number of ethnic groups reside across borders in China’s Xinjiang Uighur Autonomous Region (XUAR) and Central Asian states. According to Chinese statistics, about 600,000 ethnic Chinese are now living in Central Asia. Whereas, in Xinjiang, there are more than one million Kazakhs, 140,000 Kyrgyz, 33,000 Tajiks and 14,500 Uzbeks. Because of geographical proximity, religion and ethnicity, ethnic groups across the borders in China and Central Asia have maintained a traditional friendship and have always kept up frequent contacts.

Since 1992, the negotiation on border issues resumed with the delegations jointly sent by Tajikistan, Kazakhstan, Kyrgyzstan, Russia and China, although Russia preferred to solve the issues on bilateral basis. A break-through was made in 1996 when these five states met in Shanghai and signed an agreement on confidence building measures along the eastern border. Following this, five nations signed a demilitarized pact in Moscow in April 1997, regulating their frontiers and limiting their troops deployment within 100 kms of their common borders, 3810 tanks for Russia and Central Asian states and 3,900 for China until the year 2020. (Stobdan 1998: 402).

In the Sino-Kazakh joint communiqué, issued on 28 Feb 1992, it was stated that “the two sides have given a positive appraisal of the results achieved during the border negotiations between China and the former Soviet Union on the present section of the Sino-Kazakh border. Based on the present treaty concerning the Sino-Kazakh border, the two sides will, in accordance with the established principles of international law and in the spirit of mutual consultation on equal footing, mutual accommodation and mutual understanding, continue to discuss the border issues so as to find a fair and reasonable solution acceptable to both sides.

The most notable progress in negotiation for the bilateral settlement of disputed borders was the Sino-Kazakh frontier agreement signed on 26 April 1994 by the Chinese Premier, LI Peng and the Kazakh President Nursultan Nazarbaev. The agreement finalized in principle the demarcation of the 1700 kms long Sino-Kazakh borders. (Melet, 1998). The official Chinese press hailed this as a historical event of significance in Sino-Kazakh relations and claimed that the Sino-Kazakh border would become a bond of friendly cooperation and common prosperity. The joint statement by the Chinese President, Jiang Zemin and the Kazakh President Nazarbaev in September, 1995 confirmed that both sides would soon start the survey and delineation of the borders according to the agreement of April 1994. (Singh, 2000). Finally, in September 1997, the Chinese Premier, LI Peng and the Kazakh President, Nazarbaev signed an additional protocol to the 1994 agreement after the demarcation of the last disputed piece of common boundary- the 11kms. line near the Hantengri mountain, on the tri-junction of China, Kazakhstan and Kyrgyzstan. From now on, the Sino-Kazakh border is not only formally recognized but also legally demarcated along its entire length. (Raczka, 1998).

China has sought more stability and tranquility on its border by promoting stronger economic and diplomatic ties with its three immediate neighbors in central Asia. This is evident from the success of the signing of the Five-Nation Agreement. After that, the delegation from these countries held many rounds of talks on disarmament and confidence building in border areas. It was a success of the Chinese policy on regional security and multilateral democracy. It was agreed that, the military forces stationed

along the border areas would not attack each other and there would not be any military exercises aimed against each other. It also specified the limits that will be imposed on the scale, scope and number of military exercises on both sides of the border areas. It further stipulates that the concerned sides should inform each other of major military activities taking place in any area within 100 kms of the boundaries. It also makes it mandatory for all sides to prevent any dangerous military activities with friendly exchange of military forces and frontier guards. (China Daily, April 26, 1996).

For the past decade, Russia, China, Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan and Kazakhstan have all been involved in high level negotiations to define their respective borders. Strong-arm politics, economic pressures, shadowy backroom deals, nationalist sentiments, public dissatisfaction and an environment of mutual mistrust have marked this process. The resolution of border issues peacefully and transparently would have a positive impact on regional security, economic cooperation, ethnic relations and efforts to combat drug trafficking and religious extremism. (ICG Asia Report, 2002: 1).

Kazakhstan and China face pressing, and sprawling problems in the demarcation of their borders. With the collapse of the Soviet Union, Russia, China, Uzbekistan, Kyrgyzstan, Tajikistan, Kazakhstan and Turkmenistan all accepted the old administrative Soviet borders as their state boundaries rather than opening historical territorial claims. This was an important step against a possible host of irredentist claims. Nonetheless, as those administrative boundaries had never been demarcated and were sometimes only general outlines, several kilometers deep, on maps. The Central Asian states have all been forced into a complex, and often interlocking, series of bilateral negotiations to resolve the limits of their territory. (Ibid: 1).

Like all border disputes in the region, ethnicity, resources and history played their role in border talks between China and Kazakhstan. Kazakhstan voiced some annoyance over the fact that the border with China—determined by agreements both between the Russian Empire and China in the 18th and 19th Century, and between China and the newly

established Soviet Union—divided ethnic Kyrgyz and Kazakh minority populations. Others fled the Soviet Union during the 1920s and 1930s. As a result, there are now estimated to be some 900,000 ethnic Kazakhs in China's Xinjiang region. The border with China was sealed until 1991, but since independence, it has become an important trade and transport route for Kazakhstan.

China is concerned about ethnic separatist movements on its territory among its Muslim population, and fears that the new freedom movement for Uighurs and other ethnic minorities will provide them access to wider regional support from Muslim peoples in Central Asia. It has taken a particularly strong line against ethnic Uighurs, whom, it claims, are often supportive of separatist movements. China is mainly interested in a strong border regime with easily identifiable borders, which it can use to control any links between its own ethnic minorities and the states of Central Asia. (Ibid: 17).

After the collapse of USSR, in 1991, the Sino-Soviet border changed. The western part was divided into four sections: Kazakh-Chinese, Sino-Russian, Kyrgyz-Chinese, and Tajik-Chinese. At that time, the newly independent Central Asian states not only recognized the existence of the territorial issue, but agreed to come to the negotiating table through Russian mediation. (Liu Dexi 1996: 180).

The "Four plus one (Russia and three Central Asian countries, namely—Kazakhstan, Kyrgyzstan and Tajikistan and China)" negotiation formula was created by the Sino-Russian "partnership" in due observance of the Sino-Russian border agreements. After 1993, the "Four plus One" formula led to the formation of two regular committees—for confidence-building and for joint boundary demarcation and arms reduction — which later became founding members of the so-called "Shanghai Five" (Sun Zhuangzhi, 1999: 204-206).

The first fruit borne by the committee for confidence-building and arms reduction was the Shanghai Agreement on confidence-building in the military field in the border area in 1996. All the concerned states agreed to stabilize their border areas by

establishing demilitarized zones and by promising to exchange sensitive military information. (Krasnaia Zvezda, 1996).

In February 1997, Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan joined in Moscow and signed the agreement on mutual reduction of armed forces in the border area. The level of "stability and trust" between the concerned parties was upgraded by the agreement for the limitation of arms and personnel within a 100 kilometer zone of the former Sino-Soviet border and by its mutual inspection. (Sbornik, 1999: 385-392).

The "Four plus One" formula advanced the progress of border demarcation on the western border. In 1994, the Kazakh-Chinese border and the Sino-Russian 50 kilometer border were agreed upon, with two small sections of the latter border undecided. In 1998, when the third "Shanghai Five" summit was held in Almaty, a major city in Kazakhstan, they finally resolved them in the Kazakh-Chinese supplemental agreement (Inside Central Asia Mar. 8-14, 1999).

Shanghai Five (SCO) As a Factor Between Sino-Kazakh Relation

The Shanghai 5 was originally established as a joint border agreement between China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan on the 26 April, 1996, but the origin of this kind of cooperation can be traced back to 1964 border negotiations between China and the former Soviet Union. The collapse of the Soviet Union revived some old questions concerning the western borders of China, and as Michael Clarke has pointed out, China had been focusing on that issue already at the beginning of the 1990s, whereas for example Kazakhstan was more interested in trade. (Clarke, 2003: 212-213). Although the agreement was at that time by no means restrictive and its focus was mainly economic, it had a clause that "entrusted the members to stand against stirring up ethno-religious nationalism". (Mishra, 2001: 305-06). All the member states had their own problems with different ethnic or religious groups, although in different forms and scales.

Map: Members of the Shanghai Cooperation Organisation (SCO)



Source: http://www.photius.com/shanghai_cooperation_organization/index.html.

China has always had its own problems with the Sufi Islamic Uyghur separatists of Xinjiang (which the separatists themselves call East Turkistan) and has cracked down on them on several occasions during the 1990s and later. One can also argue that China's Uyghur related problems have nothing to do with religion and more with other factors such as Uyghur ethnic identity and growing immigration of Han-Chinese as well as the example of nearby and newly independent ex-Soviet Central Asian states.

Kazakhstan is the most "Russianized" ex-Soviet state of Central Asia and certainly the most secular one. Kazakhstan's president Nursultan Nazarbaev has been described as "one of the strong men like Gorbachev and Yeltsin". (Capisne 2000: 3). Nevertheless Kazakhstan faces several problems with ethnic minorities, as there are large numbers of Russians and Uzbeks in Kazakhstan. On the other hand, Kazakhs are official minorities in China. Kazakhstan has had its problems with nationalist Kazakhs and

Russians. Like China, Kazakhstan also look askance at their Uighur minorities promoting an independent East Turkistan.

The multilateral frameworks in which both participate also shape China's relationship with Kazakhstan. Even important liberal dimensions of the relationship have unfolded within a multilateral context. For example, the effort to enhance mutual military security along the Chinese-Kazakh border has been carried out as a mutual agreement among several states. On April 26, 1996 China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan-what became the "Shanghai Five" agreed to measures intended to strengthen mutual confidence by assuring one another that military forces deployed along the border would not attack across the border that military maneuvers would be limited in size, scope and number and not directed at the other side; that the other side would be notified of significant military activity within 100 kilometers of the border and invited to observe this activity and that each side would avoid provocative military actions and foster constructive contacts between national militaries. (Gaungcheng, 2002: 130).

The Shanghai Five came as a natural reaction to the serious threat that the Central Asian region would become an area of permanent instability following an upsurge of international terrorism, religious extremism and national separatism. Russia and China, the two giant neighbors at loggerheads with each other since the great split in the international communist movements, started mending fences even before the break-up of the Soviet Union and the emergence of five newly independent states in Central Asia. The 1996 initiative was undertaken primarily to protect trans-border trade among the above states, which had increasingly come under attacks from reactant minorities and groups professing a particular ideology. As an appendage, the agreement also entrusted the members to 'stand against stirring up ethno-religious nationalism'. (Beijing Review, May 13-19, 1996: 6-8). Since its inception, the Shanghai Five, now Shanghai Cooperation Organisation (SCO) has steadily increased its focus on the development of regional security situation, following violence and unrest in Kazakhstan, Kyrgyzstan and Tajikistan.

At the very first summit Shanghai Five Forum at Shanghai during April 1996, the member states had put in place their first CBMs agreement where they committed themselves not to use violence or threat of violence for resolving their mutual differences. They had also agreed to have no military exercises aimed against each other and no military activities within 10kms of borders. In their next summit at Moscow during 1997, President Yeltsin had proposed to create a zone of peace along the 10,000 kms border shared by these five countries. During their 1998 summit at Almaty (Kazakhstan), China succeeded in getting through its resolution where all the member countries agreed to reject all manifestations of national separatism and religious extremism and to ban on their territories activities harmful to sovereignty, security and public order of any of the five countries, their next summit was held at Bishkek (Kyrgyzstan) during August 24-25, 1999 which came out with a proposal for a nuclear weapon free zone in the region and urged all nations to jointly fight international terrorism, ethnic separatism and religious fundamentalism. And during their most recent fifth summit at Dushanbe (Tajikistan) during 5th July, 2000, these leaders not only reiterated their agreement on creating a nuclear weapon free zone in the region, to jointly fight international terrorism, ethnic separatism and religious fundamentalism, set up a Regional Center in Tajikistan to study these problems but also criticized Clinton's ballistic missile defence programme thus expanding their agenda beyond their immediate concerns. They have also since agreed to enlarge their organisational framework that will now include series of annual meetings amongst their premiers, ministers, officials and experts. (Singh, 2000:11).

The Shanghai Cooperation Organization (SCO) was launched on June 15, 2001, Presidents of China, Russia and four Central Asian states (Uzbekistan being the latest) met in Shanghai to sign a declaration establishing the new regional body to "promote peace, stability, economic and trade ties". They also signed the Shanghai Convention on "combating terrorism, separatism and extremism". Then the Chinese President, Ziang Zemin put forward four point proposals: (Mahmud, 2001: 1).

1. SCO should recognize the differences of the nations in order to find out ways and to adapt to each others unique characteristics,

2. An anti-terrorist centre should be established as soon as possible;
3. The six countries should carry forward the 'spirit of unity' to solve problems through friendly consultations, and
4. The organization must adhere to the principle of 'being open', meaning it is not aligned and does not target any particular country.

The SCO summit declaration of 'eternal friendship' between China and Russia marked a more pragmatic reality. The agreements reached by Russia, China and the Central Asian states, the Sino-Russian agreements on the creation of a 100 kms demilitarized zone along both sides of the border, the formation of the Shanghai Cooperation Organization and the partnership with Russia are poised to serve to guarantee the stability of China's north and northwest, thereby enabling Beijing to concentrate on its south and southwest, with its troublesome relationship with Taiwan and the issue of sovereignty of the disputed Spratly Islands. For the time being, a partnership with Moscow is in Beijing's interest. Nothing in the official policy of Moscow and Beijing attests to the asymmetry in their relations in favour of the Chinese side. Beijing demonstrates great tact and in every way possible, underscores the equality in its relations with Russia. According to Boris Rumer, by joining the SCO, China had the following three goals; most importantly, to isolate Xinjiang from the turbulent Muslim environment, counteracting American influence in Central Asia and lastly replacing Russia as the key actor in the region. (Rumer, 2000: 62-63).

Beijing is also faced with the problem of encouraging economic development and linkages without assisting ethnic separatism. In April 1996 in Shanghai Five meeting, leaders across the border agreed that they would not support separatist groups. However, China's policy of encouraging economic development while keeping a tight lid on political activism has been strongly implemented by Wang Lequan, Xinjiang Regional Party's first secretary, in the hope of resolving ethnic problems. It is also felt that a higher standard of living and more political stability in Xinjiang compared to such neighbouring nations, as Tajikistan and Kyrgyzstan would encourage local populations to work with the government instead of against it. (Dorian, 1997: 465).

China was relieved that the governments of Central Asian states themselves were becoming hostile to the rising Islamic opposition and these were taking severe measures to prevent Islamic fundamentalism from penetrating into the region. Therefore, instead of Central Asia becoming a threat, the Chinese found a commonality of interest with the new states as their weaker armed forces too were engaged in countering national chauvinism and trans-border Islamic fundamentalism. The Chinese leaders were relieved that neither Islamic fundamentalism nor Turkic nationalism is going to threaten China. (Stobdan, 1998: 401).

The unrest in Xinjiang has forced Kazakhstan to take hard measures to ban parties and activists supporting ethnic Uighurs in their bid for independent Uighurstan. In 1996, Kazakhstan government assured Beijing of its effort to combat Uighur unrest. Like Kazakhstan, other Central Asian states have also affirmed their opposition to the spread of fundamentalism. The attitude Central Asian states on secessionism coincides with that of China because all the present rulers in these states could face problems within their borders. (Ibid: 406-07).

China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan founded the Shanghai Cooperation Organisation in June 2001 and adopted the Shanghai convention on combating the "three evils", vowing to strengthen multilateral cooperation and jointly combat these three evil forces. The talks have become increasingly urgent after the September 11 event. While hastening the establishment of a regional anti-terrorist agency in Bishkek, SCO members enhanced their collaboration in suppressing the "East Turkistan" separatists, the Islamic Movement of Uzbekistan (IMU) and Chechen-based terrorist forces.

Tracing the origin of Shanghai Five, Russian scholar Yevgeny Kozhokin wrote that it was the "threat of Islamic extremism in Central Asia, fuelled by the Taliban regime and Pakistan that appears to have triggered effective rapprochement and coordination between the five states". According to him, "the region was an easy prey to Muslim extremism which made rapid advances and gained local support largely because the

Central Asian countries were hit by internal dissensions and disgruntlement, stoked by massive hidden and open unemployment and vast income gaps between different sections of the population. (Sulaiman, 2002: 83-84).

As both Central Asian states and China facing the same sort of problems, they are agreeing to solve the issue jointly which is evident from the various agreements signed between them both bilaterally and multilaterally. Both are working unitedly to curb ethnic conflicts. The negative sides of ethnic factors stand as an obstacle to the development of relationship between them. Both the Central Asian states and China are worried about the development of Islamic movement which are becoming more powerful in Afghanistan and Tajikistan and are perceived as a threat by the governments of Uzbekistan and Kyrgyzstan. The participation of Uighurs in various Islamic movements also led China to take effective steps to suppress them and cooperate with the Central Asian governments. China's interest consists in maintaining stability in the Xinjiang. Beijing wants the cooperation of Central Asian regimes in suppressing Uighur separatism. (Rumer, 2002: 61). Shanghai Five and since 2001, SCO is a concerted move in this regard. Both the parties concluded that there is a common interest in combating Islamic fundamentalism. Thus, it can be concluded that the ethnic factor leads to the development of relations between them and its negative impact affects their further relationships.

The very fact that the bordering republics - Kazakhstan, Kyrgyzstan and Tajikistan are parties to the Sino-Russian border agreement, which creates a 200 kms. wide zone where military deployment will be strictly regulated by mutual consent, is indicative of Russian and Chinese perceptions of the strategic importance of Central Asian Republics. The emergence of a common Chinese and Russian policy towards Central Asia also underscores their concern about the security threats emanating from this sensitive region. (Karasin, 1997: 28).

An agreement was also signed to "strengthen mutual military confidence", followed by a more elaborate accord a year later in Moscow which laid down a manual

for good neighbourly relations. Besides, an accord on mutual reduction of troops in the border areas would remain defence oriented, that they would not conduct military exercise keeping in mind the other side as the imaginary enemy, and when one side conducts military exercise, the other side would be invited as observer, that they would reduce the number of troops on the border to a level that offensive action would be impossible, that they would not use force, or threaten to use force when disputes occur and they would not seek unilateral military superiority. (Tao, 2001: 55).

The SCO declaration of 15th June, 2001 stipulated that all SCO members will strictly abide by the UN Charter, respect each other's independence, sovereignty and territorial integrity, not interfere in each other's internal affairs, not use force or threat of force, achieve equality and mutual benefit, solve all issues through consultations and never try to gain military superiority over the neighbouring countries. The declaration also said:

1. The SCO, on the basis of military treaties signed in Shanghai and Moscow, plans to expand cooperation among the member states in political, economic, trade, cultural, scientific and technological realms;
2. In pursuit of the principle of non-alignment refusal to target third countries or regions militarily and opening to the outside world, the SCO is willing to carry out various dialogues, exchanges and cooperation with any other country, or international or regional organization that expresses a desire to talk;
3. The SCO attaches special importance to ensuring regional security. All member-states will closely cooperate with each other in implementing the Shanghai treaty on the crackdown on terrorism, separatism and extremism, including establishing an SCO terrorism centre in Bishkek, Kyrgyzstan;
4. To maintain global strategic balance and stability under the international circumstances is of special significance. The SCO declaration approved the formation of a 'Council of Co-coordinators' of member-states to co-ordinate the cooperation. (Shangwill and Jinnen 2001: 4).

Both Russia and China came into one platform for cooperation in the region- the Shanghai-Five Organisation. In Alma-Ata, Kazakhstan, in July 3, 1998, the parties agreed that the following basic principles must be observed in developing economic cooperation of equality and mutual benefit; (<http://www.mfa.gov.cn/eng/ziliao/3602/3604/t18029.htm>)

- Provide internationally accepted trade terms to each other in order to expand their volumes;
- Encourage and support various forms of economic and trade cooperation in a local and border areas as well as cooperation between large enterprises and large companies of the five countries.
- Improve their respective investment environment so as to create condition for boosting investment in the economic projects in their countries.

The parties also held that it is necessary to intensify and encourage large-scale and long-term cooperation in all economic fields, including the construction of oil and gas pipelines and the railway, highway, water and transport links. The parties would give priority to upgrading and utilizing the existing transport and pipeline facilities between them or leading to other countries. While the preference should be paid to the profitability, reliability and safety of both ongoing and future projects, due consideration should be given to the national and economic interest of the countries along the roads of these projects.

CHAPTER - 5

ENERGY COOPERATION

Kazakhstan-China Pipeline Route.



Source: US Government, DI Cartography Center

. There is a complete consensus about energy is China's important interest in Kazakhstan. However, it is after 1991 that energy as China's important strategic interest in Kazakhstan was put at the heart of China's diplomatic concerns. Before that, energy entered the agenda of China's diplomacy in Kazakhstan but it did not occupy the central position in the structure of China's interests in the region.. There are two reasons for this: one is the increase in China's domestic energy demands and the other is the change in the international situation after the collapse of the USSR. (Hausheng;2004:52)

China has become the second largest oil consuming country in the world. Thus the security of energy is of paramount importance. Kazakhstan is ready to cooperate with China in various energy projects. However, because of the distance involved and location of resources, there is need to construct new infrastructure and to substantially modernize the existing ones. All these would have to occur in tandem with political, legal and economic developments. International treaties are also applicable in this context, since Kazakhstan and China have signed a number of agreements and are members of international and regional organizations such as the United Nations, the Shanghai Cooperation Organization and both participate in the Conference on Interaction and Confidence- Building measures in Asia (CICA). (Saurbek;2008:85)

Kazakhstan's Energy Resources

Kazakhstan undoubtedly possesses great supplies of oil and gas. However a careful determination of the amount of these supplies is difficult. Nevertheless, bitter disputes for control of the oil and gas fields gained momentum even before the process of determination of the borders and sizes of these fields was finished. There is conflicting about the political and actual deposite of competitions for energy. Oil and gas in Caspian Sea. The competitors for energy include local and distant governments and scores of international oil companies from all parts of globe (Babak; 1999:181).

The Kazakhstan State Committee on Geology reported in 1996, that 160 deposits of oil and gas have been discovered on the territory of Kazakhstan accounting for 2.1

billion tons of oil and 0.7 billion tons of condensed gas. However, data published few years ago indicated greater numbers. According to the Economist Intelligence Unit (Ibid; 182).Kazakhstan has large and growing reserve of oil and gas. The actual level of oil reserves is hard to asses. Industry sources, such as the British Petroleum (BP) statistical review of world energy, put total reserves at the end of 1996 at 8 billion barrels, or 0.8 percent of world reserves with a reserves production ratio of 47.7. However, exploration probably means that reserves will reach 20 billion barrels by the end of the 1997. Around 85 percent of oil wells in Kazakhstan are close to Caspian Sea. Proven and probable reserves of gas are put at around 1.84 trillion cubic meters, with estimated undiscovered reserves of 6.23 trillion cubic meters. Kazakhstan has 1.3 percent of world gas reserves, with a reserves-production ratio 65.1. (Ibid:182)

Oil and Gas production in Kazakhstan (In billion barrels/ trillion cubic meters.)

Year	Production (Mote)		Net Export (Mote)	
	Crude oil &NGL	Natural Gas	Oil	Gas
1992	25.96	6.57	3.84	8.35
1993	23.08	5.42	6.10	5.12
1994	20.37	3.64	7.22	4.49
1995	20.73	4.79	9.00	5.31
1996	23.07	5.29	12.72	2.55
1997	25.90	6.57	16.24	0.46
1998	26.07	6.44	16.42	0.62
1999	30.27	8.63	22.71	1.23
2000	35.47	10.07	27.93	0.84
201	40.28	10.14	30.63	1.06
2002	47.48	11.83	37.65	2.37

Note- NGL is Natural Gas liquid

Mote is a measurement of energy. It is equivalent to

1 mote =2.388x10000000 terajule (Tj)

1Tj =1000000000000joules

Sources- Energy Balance of Non-OECD Countries, 2002, pp.11,213,223,255 Energy Balance of Non-OECD countries 2004pp.II-209,214,230.

Kazakhstan has a few very large oil and gas fields. The biggest is the Tenzig field, whose potential reserves (together with neighboring Korolev field) are estimated at 1 billion tons of oil. The second biggest is Karachaganak, with supplies estimated at 340 million tons of oil, 1.3 trillion cubic meters of natural gas and 1.2 billion tons of condensed gas. Other substantial fields include Uzen, with proven supplies of 200 million tons of oil and Kumkol, with proven supplies of 80 million tons of oil and 75 billion cubic meters of gas. (Babak;1999:182-183)

Kazakhstan's Hydrocarbons Exports

Kazakhstan with its vast reserves of oil and gas, and because of its very low consumption of energy, stands as a producing and exporting country to international markets. Kazakhstan has a number of problems such as a landlocked geography, which cause serious logistical barriers for the transportation of goods and commodities, including energy. Besides, the long distance from major consumer centers, constraints of infrastructure, drilling equipment and climatic conditions complicates the development, exploration and transportation of energy. These are the reasons why projects in this region take a significantly longer time to develop. (Saurbek;2008:82)

China's Energy Interest

China has not been able to pump enough oil to satisfy its increasing demand since 1993 when it became a net-importer of oil. China's dependence on import of gas and oil has to be seen in the context of Central Asia's oil reserves that stand at about 200 billion barrels, second only to the Middle East. Similarly, their natural gas deposits are estimated to be 8,000 billion cubic meters, only less than those of Russia and the Middle East. According to a US State Department Report released in 1997, the petroleum and natural gas resources in Central Asia and the Caspian Sea could be converted into \$4 trillion, and sooner or later, this is bound to attract greater attention of foreign investors. Besides, this region is also rich in iron, copper, lead, chromium, gold and other non-

ferrous metals and rare metals. For instance, uranium deposits in Tajikistan account for one seventh of the total uranium deposits in the world. All this clearly makes both China and CARs mutually compatible and their cost-effective engagement shows all sign of surviving all the possible hurdles. Therefore, in addition to its energy requirements, this great power competition to seek access and influence amongst CARs will continue to dictate China's indulgence and engagement with Central Asia (Singh; 2000: 17).

China's long-term policy planners have keenly focused on ensuring access to Central Asian energy resources. Despite being the world's sixth largest producer of oil, China has not been able to produce enough oil to provide for its increasing domestic demand since 1993. The situation of China's domestic energy demands since 1993 has been changed significantly and China became a net oil importing country from then onwards. But before 1997, the annual volume of oil import was less than 15 million tons, accounting for less than 10% of China's annual oil demands. So the oil import during this period did not constitute a serious problem. In 1997, the volume of oil import jumped to more than 35 million tons. Between 1997 and 1999, China's annual volume of oil import basically maintained around this level. Its oil import was upgraded to an upper level. The importance of this issue was obviously enhanced (Hausheng; 2006: 52-53).

However, this period was one in which the international oil market was very stable to the buyers. The oil supply was ample and the price was cheap. The price per barrel fell to less than US\$ 10 at the lowest. Under these circumstances, China's basic thinking was to purchase the needed oil from the international market rather than to invest heavily in its own oil sources. This might be the most worthwhile economically. Then China had investment in oil overseas, but it was mainly commercial, aiming basically at making profit rather than providing oil sources to China (Hausheng; 2006: 52-53).

China's involvement in the exploration of Kazakhstan's oil reserves is beneficial for both the parties. China can help Kazakhstan in the development of its economy by assisting this country with the help of advanced technology. Provided certain reforms are

made in the domestic Chinese oil market, integration with the international oil market, large scale import of oil to coastal ports and transport; inland pipelines provide, the least cost strategy. However, the government takes the view, i.e., coastlines are sensitive to be blockaded. In this context, Kazakhstan's oil resources are attractive as an alternative source of supply in an immediately neighboring country.

With the exception of the petroleum resources, in the Middle East, all this oil and gas production could be delivered to consumers in central and east China via pipeline. For this reason, Chinese investment activity has been focused on Central Asia and Russia. Oil from these regions could be shipped directly to China along a supply chain, which could be under Chinese management from start to finish. Together these pipelines and shipping routes would substantially reduce China's exposure to disruption on the international markets and to military blockade. A specific target has been set for the oil industry to secure supplies of 50 million tons per year from overseas production by 2010, but this plan is greatly dependent on the construction of an oil pipeline from Kazakhstan to China. (Speed; 2002:35-36)

For Kazakhstan, getting the oil from its source to foreign market is a challenge. Cooperation with China has the potential to provide Kazakhstan with another exit to the sea, since China can be a bridge across Asia to the Pacific Ocean. Kazakhstan, of course can export oil through Iran, but not easily because, first Turkmenistan represents something of an obstacle; second the United States and other western countries will pressurise Kazakhstan not to export through Iran and third, for Kazakhstan to realize its potential as an oil power it must pursue multiple export routes, including turkey, Russia and China as well as Iran. China could be a major corridor by which Kazakh oil can flow to the east. China and Kazakhstan have already signed an agreement for laying a 3000 kms pipeline from Kazakhstan to the Ala pass in the Chinese province of Xinjiang (Guancheng; 2002: 127). Moreover, Chinese companies have the ability to construct a pipeline from Central Asia to the south and to the west. Given the Chinese energy demand and the high level of Chinese oil technology, Chinese companies are in a position to compete for Central Asian oil and gas. It is a market that China should seize,

although it need not rush into competition with western oil companies. When Kazakhstan compares Chinese with western companies, it will appreciate the advantages of dealing with the former. In particular, Kazakhstan will realize that, in the energy field, China provides a balance between the United States and Russia (Ibid).

Kazakhstan's attempts to find reliable access to the world market and alleviate heavy dependence on the Russian transportation system led to a visible rapprochement with neighboring China. In September 1997, Chinese Vice President Lee Pen visited Kazakhstan during which the Chinese side promised to invest \$9.5 billion in projects in Kazakhstan. The deal included an agreement by the CNPC to build the pipeline from the west of Kazakhstan to China (Babak; 1999: 203). It was assumed that rapidly developing China can become a main importer of Kazakh oil due to the fact that its own hydrocarbon resources are not enough to meet domestic energy demand. The growth of the Chinese oil industry from 1992 to 1996, on average, was only 1.5 percent per year, but the consumption of oil products increased by 7.5 percent per year (Ibid). In 2000, China will import more than 1 million barrels per day or 50 billion barrels per year. Yet, it was not only the energy demand that pushed Beijing to cooperate with Kazakhstan. China also wants to consolidate ties of economic and strategic significance in the Central Asian region. Beijing understands that in this respect it has to compete with Russia and the United States, which are also penetrating this region (Ibid).

By the end of 1997, China and Kazakhstan agreed to create a joint venture for realization of the Uzenmunaigaz project, which is dedicated to the building of a pipeline from the Uzen deposit in the west of Kazakhstan to the border with China and from there to western Chinese provinces. The period of building was determined to be five years. By this time, in China's opinion, the Uzen deposit will reach its maximum oil production, i.e., 6 to 7 million tons of oil per year. The total cost of the project is estimated to be \$ 4 billion, including the pipeline. China has thus been very active in its participation in Kazakh company Aktobermunaigaz, which extracts 2.6 million tons of oil annually and is increasing its capacity further. (Babak; 1999:2003-04)

Kazakhstan's energy resources are of great significance to China in the following aspects, first Central Asian energy occupies an important position in China's oil import. China's annual oil import tops 100 million tons of which only about 2 million tons come from Central Asia and are thus of no strategic significance. After the pipeline is put into operation, China will at least import about 10 million tons of oil per year from Central Asia. It hopes to import 20 million tons and more in the future. Thus Central Asian energy will account for 10% or more in China's oil import. This is a large proportion. This shows its importance to China. Second, while Central Asian energy provides a new supply source to China, it will improve China's energy import structure and help realize the diversified energy import. The diversified energy import is one of the objectives of China's energy strategy. At present, about 50% of China's oil import comes from the middle east and about 22% from Africa. The degree of China's dependence on Middle Eastern and African oil exceeds 70%. In view of the actual and potential instability in the Middle East and Africa and the security issue of long distance transport by sea, China's excess dependence on the Middle Eastern and African energy is obviously not an ideal situation in which risks exist.

The main partner of China's energy cooperation in the region is Kazakhstan. Their energy cooperation includes two aspects: one is China's oil companies participating in energy exploration, development and infrastructure construction in Kazakhstan. The other is the oil pipeline very built from Kazakhstan to China to deliver Kazakhstan and Russian oil to China.

Energy in China is a strategic issue. The finite oil resources in China, combined with high economic growth rates, stimulates the demand for diversifying energy supplies. In 1993, the first oil deficit appeared in China and since then China has become a net importer of oil. By 2010, the oil deficit is expected to be more than 100 million tons annually and the gas deficit around 30 billion tons, and will require China to turn to foreign resources; China's energy security is thus tied to foreign affairs, and its increasing demand for foreign oil and gas will have a strong influence on the world-wide geopolitical energy situation (Guangchang; 2002: 126).

The Chinese government has been moving to address the problem of oil and gas security. The United States, since 1977, has maintained a strategic oil reserve, China too must create a diverse, secure oil and gas reserve. To do this China should help develop oil markets in Russia and Kazakhstan; to this end it needs to devise a clear strategic plan to guide its energy diplomacy in the region, concentrating on resources near at hand rather than pursuing those at greater distances. For example, China cannot compete with western countries in the Caspian Sea region. Its natural external energy base is Kazakhstan, linked to China through energy development in Xinjiang.

In 1997, the Chinese and Kazakh governments signed a \$9.5 billion agreement on oil extraction in the Aktyubinsk and Ukhensk oil basins, projects that now account for the largest number of Chinese foreign investors. In a joint declaration on strengthening cooperation in the twenty first century, signed in November 1999, the two sides underscored that “cooperation in the energy sphere has a decisive strategic significance for both countries. (Gaungcheng;2002:126)

Cooperation in Energy Sector

Energy sector cooperation remains the mainstay of China- Kazakhstan trade and economic relations, China is giving more stress on oil sector development in Kazakhstan in order to secure its own oil requirement. The International Energy Agency (IEA) projects a higher level of net oil imports for China, amounting some 4.0 million barrels per day by 2010, which could rise to 8.0 million by 2020. (Vinogradov and Speed;2000:387-388)

Several agreements between Kazakhstan and China, were signed to operationalise various energy projects. Among the first of the vital agreements was the common declaration about basis of friendly relationships between republic of Kazakhstan and People Republic of China (1993). This document defined the development of relations on the principles of mutual respect, sovereignty, territorial integrity and other general principles of international law. Specifically, trade-economy issues were denoted, the key

ones being in the industry sectors, transport routes, energy (oil, gas and electricity) and space research. (Saurbek; 2008: 87).

While China's oil requirement is high, the fact that Kazakhstan's annual oil production will reach nearly 10 million tons, placing Kazakhstan among the top ten petroleum producing countries in the world (Xiaohua;1998:7). On the one hand Chinese pace of involvement in Kazakh oil sector is increasing on the side of Kazakhstan its need of a potential partner to develop and export its oil sector, encourages Kazakhstan to join hands with China in oil sector cooperation.

During 1997, China reaped the first fruits of its efforts to enter Kazakhstan's energy market. Kazakhstan and China through CNPC (Chinese National Petroleum Corporation) signed their first co-operation agreement in the same year to jointly develop Kazakhstan's refining capacity (Patnaik; 2002:8). This agreement contemplates investment commitments of approximately US \$9.5 billion by China as well as undertaking to commence operation within 5 years. Again in August 1997, CNPC won a tender giving it 60% stake in developing Kazakhstan's second richest Novy Uzen oil field (first in Tenghiz oil field) by investing US \$400 million. (Stobdan;1998:3) Out of projected \$ 1.1 billion by this CNPC won exclusive right to negotiate with Kazakh government for a contract to revitalize production of 2.7 -7 million tons at Uzbensk (or Novyuzen) oil field which located in Aktobe oblast of western Kazakhstan for next 20 years (The Times of Central Asia; 2001:6).

In September 1997, the CNPC signed an agreement on implementing the pipeline project with the Kazakhstan Government. The project was initially proposed by Kazakhstan. Between 1997 and 1999, the two sides competed the feasibility research report on the construction of the pipeline. According to the design, this pipeline was from Caspian Sea port city of Atyrau, Kazakhstan in the west to the Alataw Pass at the border between China and Kazakhstan via the Aktobe oil zone (including the Kankijak Oilfield) purchased by the CNPC and throughout Kazakhstan. The length of the pipeline is more

than 3,000 kilometers, of which about 2,818 kilometers are in Kazakhstan and about 270 km in China. The total cost is estimated at US\$ 3billion (Hausheng;2004:54-55).

In December 2002, during the official visit of state delegation of Kazakhstan to China, Kazakhstan and China reached an agreement to construct a pipeline from western Kazakhstan to China (Times of Central Asia;2003:11) So, a pipeline from Caspian Sea to China that seemed to be an vague project is now expected to take shape in near future.

A subsidiary of China National Petroleum Cooperation (CNPC) in Kazakhstan owns 49% share in the northwest pipeline company Munai Tas the operator of KenkiyaAtyrav pipeline project which will joint the Aktope and Atyrav oil producing regions in Western Kazakhstan. (The Times of Central Asia;2002:12) By May 2003. 500 kms of Kenkiyak-Atyrav oil pipeline (first phase of the pipeline) has already been constructed; and the Chinese side is committed to carry out further works gradually (Times of Central Asia;2003:11). By January 2003 (i.e., even before completion of its first phase) the oil pipeline was filled with oil, mostly from CNPC Aktopemunaigaz company. Presently the KenkiyakAtyrav oil pipeline has a capacity of 6 million tons. (Transoil;2003:10) As this pipeline depends much on the oil from CNPC Aktobemunaigaz company, of which the Chinese National Petroleum Cooperation (CNPC) owns more than 60% (The Time of Central Asia; 2003:11)

So, it is clear that China (mostly through CNPC) is actively engaged in Kazakhstan's oil sector. President Nazarbayev, on the eve of new Chinese President Hu Jintao's visit to Astana in June 2003, stated that Chinese National Petroleum Corporation had already invested \$700 millions into the Kazakh economy. (The Time of Central Asia;2003:11) Even at presently the gas market of China is not developed enough, China plans to triple its gas consumption by 2010. (Time of Central Asia;2003:11) So, China has taken steps to ensure its future gas needs and signed an ambitious project of 5730 km long gas pipeline project estimated at a cost of \$11 billion between Turkmenistan-Uzbekistan-Kazakhstan and China in which a consortium of companies form US, Japan and China have already been conducting preliminary survey's for quite some time. (Patnaik;2002:8)

Another ambitious gas pipeline project which is being discussed is close to 7000 km long pipeline going east through China, from Turkmenistan to Japan. It would run along the route of an existing pipeline through Kazakhstan then a completely new line would have to be laid connecting China's western Xinjiang and Tarim oil gas there (Dorian;1997:82) But the feasibility of this pipeline which is a part of the "Energy Route" concept is very dim, at least in the near future.

Apart from the common threat perceptions , the gainful opportunity prevailing in the Kazakh energy sector dictates both Countries to take steps for mutual beneficial economic ties. China's serious search for oil and gas to meet its growing energy needs in future is perfectly matched with the rich energy supplying potential of Kazakhstan. China is investing large amount of capital in Kazakhstan's energy sector and help semi-landlocked Kazakhstan to export its oil and gas to world market. Besides energy, China and Kazakhstan are also actively involved in other fields of economic cooperation with widens the sphere of their mutual economic involvement.

CHAPTER - 6

CONCLUSION

The collapse of the Soviet Union resulted in establishment of five new independent Muslim Republics in Central Asia. This situation had the potential of causing instability and unrest in the region and in the Chinese borderland. After 15 years of independence, Kazakhstan developed its energy sources and became the richest country in the Central Asian region. Careful domestic and international policies also made positive impacts on the stability of this multi-ethnic country. The Kazakhstan government gives importance to develop multifaceted relationship in the international arena. Therefore, Kazakhstan has developed political and economic relations with China, as well as other Great powers. Although there exists mutual skepticism among the leaders and people of China and Kazakhstan, they are approaching each other with a careful policy with a focus on developing friendly cooperation instead of touching on the conflicting themes. China has adopted an active policy and solved the border issue in its favour. By developing good relations with Kazakhstan, China secured its long border with this country. Furthermore, China created the Shanghai Cooperation Organization with the help of Russia and Central Asian Republics of Kazakhstan, Uzbekistan, Kyrgyzstan and Tazikistan. In its competition with the US, China hopes to mobilize the Shanghai Cooperation Organization. Though Kazakhstan seeks to be in good terms with China, it tries to steer clear of any great power rivalry in the region.

China appreciates the importance of Kazakhstan in several dimensions and accordingly devises its policy with care. By placing Kazakhstan in a larger Central Asian context, China has planned well and successfully conducted its diplomacy with that country. When dealing with Kazakhstan, China also keeps in mind other important factors, such as Russia, the United States, and Islam. As a result, Kazakhstan is approached from the broader perspective of Central Asia and the states beyond. At the same time, however, China does differentiate between Kazakhstan and Central Asia, giving Sino-Kazakh relations particular attention in its strategic thinking and undertakings. While China deals with all the Central Asian states on the basis of equality, it places the special emphasis on Kazakhstan which corresponds both with Kazakhstan's importance in the region and the coincides with the national interests of both countries.

China views Kazakhstan as Central to its foreign policy and places special stress on furthering bilateral relations in all three areas- political, economic and security. In the political realm, China emphasizes two dimensions in particular; consolidating Kazakhstan's support for China's position on Taiwan and reinforcing cooperation in dealing with ethno-religious extremism and separatism in China. In economic relations, China is gradually developing a strategic conception of energy cooperation with Kazakhstan. In security matters, China's future orientation is to oppose the three forces of separatism, extremism, and terrorism. While specific aspects of Chinese policy in these three areas will adapt to changing international circumstances, the basic course of policy toward Kazakhstan is not likely to change rapidly or easily.

China's faster growing economy needs market for its finished goods. At the same time energy needs of the China are also growing faster. For Kazakhstan China has emerged a natural partner for trade as the economies of both the Kazakhstan and China are complementary in nature. China exports to Kazakhstan consumer goods, technical expertise, and technology and provides port facilities to have business with other states. The creation of transcontinental railway system provides more opportunities for the development of trade between two countries.

China's Xinjiang region has been a buffer zone between China and external powers. The instability of the region is geared up with the help of the Central Asian fundamentalist and extremist groups. The US presence in the region is also a threat to China national security. Drug trafficking and arms smuggling also make China's XUAR region vulnerable and since these activities are linked to international terrorist organizations. To counter these threats, China actively participates in the Shanghai Cooperation organization (SCO) in order to keep Kazakhstan engaged with China in a friendly and cooperative framework.

Ethno-religious separatism is the most important threat perception for both countries. To eliminate it, both Kazakhstan and China are trying to establish a better

relationship which helps in improving the standard of living of their ethnic minorities and thus discourage them to join for separatist movements.

Neither China nor Kazakhstan are in favour of rising western influence in their adjacent regions. While China's policy always supports multipolar world order, Kazakhstan does not wish to be entrapped in the sphere of American hegemony. This is clearly reflected in the increasing cooperation between China and Kazakhstan through the framework of Shanghai Cooperation Organisation (SCO), which has been formed to create security framework that excludes US and other powers except Russia.

It is worth recognizing the fact that the economic reforms undertaken by Kazakhstan and China have considerable positive effects on their trade and economic relations. But there exist some fundamental difference in their approach to reform their economies. Whereas in China, gradual reform is being undertaken under the supervision of Communist leadership, in Kazakhstan shock therapy and mass privatization are being designed under a democratic form of government after the collapse of USSR. But economic transformation has been the sole political objective in both countries.

Since 1991, petroleum and other hydrocarbon products have been the mainstay in the China- Kazakhstan trade relations. Both countries have been actively involved in developing energy sector in the region. Both countries are busy in discovering new economic fields in order to strengthen their economic relationship. Good communication are the backbone of healthy trade and economic relations. Kazakhstan and China have been combinedly trying to develop various transport and communication routes like railways, airways and telecommunication system.

Though trade and economic relations between Kazakhstan and China have been improving rapidly since 1991. The two countries have been confronting several hurdles in their way. The Soviet economic legacies are still haunting the pace of bilateral economic cooperation. Despite several preventive measures, the border and cross-border trade are dominating their bilateral trade relations. In spite of various difficulties, the

prospects of Kazakh-China relations are bright. Given the geographical proximity, complementary nature of their products and historical linkages between these two nations, their relations are expected to grow for ever.

Many external powers wanted to fill the vacuum created by the disintegration of the former USSR. The Islamic states tried to influence the region through their universal belief of Islam and wanted to bring the region into their fold. Powerful external powers are also attracted towards the region in order to keep it under their influence because of geo-strategic, geo-political and geo-economic significance of the region. The regimes in Central Asia are also faced with a dilemma as to which side they should tilt. The external powers came to the region with a basket of offers in order to help the regimes to come out of their problem. However, the CentralAsian states started their business with external powers keeping in mind the Russian factor.

In their mutual relationship, the ethnic factor plays an important role. The relation between China and Kazakhstan is also based on the basis of ethnic concerns. Both Central Asian states and China pay greater attention to minimize ethnic conflict in their respective states. Both are worried about the development of Islamic movements which are becoming more powerful in Afghanistan and Tajikistan and are perceived as a threat by the governments of Uzbekistan and Kyrgyzstan. The participation of Uighur in various revival movements also led China to take effective steps suppress them and cooperate with the Central Asian governments. Shanghai Five and since 2001, SCO was a serious step in this regard. Both the parties concluded that there is a common interest in combating Islamic fundamentalism and separatism.

China uses SCO as a tool to further its influence in Central Asia. This organization could serve the interests of its member countries. It remains to be seen, if the SCO will act as the guarantor of the balance of regional interests when China achieves absolute domination in the Asian continent, has SCO facilitated the process of negotiations and resolution of boundary problem.

China's Xinjiang region has been a buffer zone between China and external powers. The instability of the region is geared up with the help of the CentralAsian fundamentalist groups. China's faster growing economy needs market for finished goods and at the same time energy needs of China are also growing faster.

Though there is growth in trade, relations between Kazakhstan and China have also encountered some problem. China has proved to be an attractive partner in so far as it is more willing to accept better arrangements than most other countries. Kazakhstan increasingly wishes to be paid for goods in convertible currencies. China looks set to become a major influence in the developing economic life of the region and one with the potential to intervene in other ways in the event of continued instability in the region or reduced Russia' involvement.

Following the post-September terrorist attack Russian's alliance with US-led NATO has been cause of concern for China. However, both China and Russia are concerned over the eastward expansion of NATO and over the US presence in the region. Both have the same view regarding the withdrawal of US army from the region.

For now it can be said that no one state, either a big power or a bordering neighbour or an Islamic one, can have a monopolistic influence in Central Asia. The states in the region provide at least something for every contending power, benefiting in return by cooperating with various states. However, as a regional power and a neighboring state with convergence of interests and complementarily of economy, China has an edge in the region over other powers barring Russia, with which it is creating a cooperative framework.

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