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Chinese Gold Bar

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In a Fortnight

CHINA ASSESSES ITS GOLD RESERVE STRATEGY

By L.C. Russell Hsiao

As the U.S. economy dithers through a fragile global recovery, Chinese leaders are convening in Beijing for the annual plenary session of the National People's Congress (NPC)—China's ceremonial legislature—that begins March 5. The purpose of the meeting is to “hammer” out, among other things, a blueprint for the Renminbi's (or Yuan) ascendancy. China's 2010 economic blueprint, which was officially unveiled at the plenary's opening, set the country's target growth rate to the proverbial 8 percent—which is the rate Chinese economists deem sufficient to generate enough domestic demand to make up for dwindling exports to regions such as the United States and Europe. The 8 percent growth target has remained the same since 2004 and is also widely seen as politically necessary to create enough jobs to stave off social unrest. While the world's largest economy—United States—struggles to stem the bleeding of jobs in its ailing economy, its biggest creditor—China—has been quietly increasing its gold reserves in an apparent effort to hedge the weakening value of the U.S. dollar and stabilize the value of its massive foreign exchange (FOREX) reserves. Depending on the pace and scope of China's FOREX reserves diversification strategy, this trend will have broad implications for the internationalization of the Renminbi (RMB) and China's \$2.27 trillion FOREX reserves that are mostly parked in U.S. treasuries.

One of the key issues that Chinese leaders will have to tackle is whether to let the RMB rise to restructure the domestic economy and rebalance the global economy. If Chinese leaders decide to allow the RMB to appreciate against the dollar and other currencies, gold may increasingly become an attractive alternative to include within

the ‘basket’ of China’s FOREX reserves. As one of the world’s largest holder of U.S. treasury bills—the general estimate is that China owns close to one trillion dollars of U.S. Treasury securities—senior Chinese leaders have become more vocal in expressing their concerns over the United States’ fiscal discipline and calling for an alternative international reserve currency. From the outset of 2009, Beijing has taken pains to diversify its monetary risks, which include signing multiple bilateral currency swaps and actively pushing for the restructuring of international financial institutions. Another instrument less discussed in mainstream analysis, but has long term implications for the viability of the dollar as the universal reserve currency, can be gleaned from the fact that in 2009 China reportedly bought 454.1 tons of gold from its domestic market, which is equivalent to nearly 50 percent of the total purchases of 890 tons of gold made by the world’s central banks in the same year (China Review News, December 30, 2009).

In 2009, citing the head of the State Administration of Foreign Exchange (SAFE), Hu Xiaolian, the official-Xinhua News Agency reported that China increased its gold reserves by 76 percent in six years (2003) to 1,054 tons (*China Daily*, April 24, 2009). By comparison, the U.S. gold reserves totaled 8133.5 tons in September 2008, accounting for 76.5 percent of its total FOREX reserves. While Japan’s 765.2 tons accounted for 1.9 percent of its total FOREX reserves. China’s holdings of 1,054 tons of gold make up about 1.2 percent of its total FOREX reserves (Market Watch, March 3; *United Daily News* [Taiwan], February 24).

An unconfirmed 2008 report from a Guangzhou-based newspaper, *Guangzhou Daily*, reported that China’s central bank was considering to raise its gold reserve by 4,000 metric tons from the then-600 tons to diversify risks brought by the country’s huge FOREX reserves, which is largely based on T-bills (Dow Jones Newswire, November 19, 2008). Another report in mid-2009, which cited the chair of the supervisory board for big state-owned companies under the Chinese State Council’s state assets commission, Ji Xiaonan, reported that “China’s gold reserves should reach 6,000 tons in the next 3-5 years and perhaps 10,000 tons in 8-10 years” (*China Post*, December 1, 2009).

According to statistics released by the World Gold Council (WGC)—an industry association of the world’s leading gold mining companies—in 2007, China surpassed South Africa as the world’s largest gold producer, and in 2009, China surpassed India as the world’s largest consumer of gold (China Economic Net, February 4). While China bought nearly 50 percent of the total gold purchases by central banks in 2009, the volume of China’s gold reserve in terms of its FOREX reserves only ranks fifth in the world, and is

well below the global average. According to some experts, in light of the uncertainty posed by the global financial crisis, as a large FOREX reserves holder with a small gold reserve, China’s FOREX reserve is at risk and the stability of its value is in question. Thus, increasing China’s gold reserve is critically important for the currency’s long-term prospect and the country’s comprehensive national strength (*United Daily News*, February 24).

A senior official from the People’s Bank of China (PBoC) suggested, “China should formulate a long-term plan and constantly and secretly increase its gold holdings, claiming that at present the percentage of gold in China’s total reserve was too low ... PBoC should try to buy as much gold as possible from China’s annual gold output of almost 300 tons, while the gold needed by industries and residents could be imported” (China Stakes, April 27, 2009).

Since the International Monetary Fund (IMF) announced its plans to sell 191.3 metric tons of gold on February 17, which is a part of its decision to sell off 1/8 of its holdings of a total volume limited to 403.3 metric tons, there have been speculations galore about whether China would purchase the remaining lot. The IMF has not officially commented on the prospect (*United Daily News*, February 24; *Economic Daily News* [Taiwan], March 2). Soon after India (and Sri Lanka) bought IMF gold in late 2009, Wei Benhua, former deputy head of SAFE, said in an interview with the reputable Chinese-business journal *Caijing* that, “At present we should not buy. Instead we should wait for the IMF to sell gold next time, when the price of gold drops to a relatively low level ...” (*Caijing*, November 2009). Although Chinese leaders may have avoided buying from the international gold market before to steer clear of triggering market fluctuation, there is clearly a growing chorus that supports abandoning this conservative strategy.

According to Xia Bin, the director of the Financial Research Institute of the Chinese State Council—the Chinese government’s executive branch—China should continue long-term buying of gold and take advantage of when the international price is low to increase the volume of China’s gold reserves, which will help strengthen the position of the RMB as an international reserve currency and China’s long term economic development. Furthermore, Xia and other Chinese economists recommended that China allow its private enterprises to purchase gold from the international market (*Economic Daily News*, March 2; Money.163.com, February 26). In either case, the long-term implications of Chinese debates to increase its gold reserves will have far-reaching impact on the stability of China’s FOREX reserves and the RMB’s position of becoming the next reserve currency of the world—the question for Chinese

leaders now appears no longer if but how.

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Beijing Seeks Paradigm Shift in Geopolitics

By Willy Lam

China's on-going tussle with the United States over issues including Taiwan, Tibet and trade is in a sense nothing new. For more than two decades, Sino-U.S. relations have periodically gone through rough patches over these and related causes of disagreement. What is new is China's much-enhanced global clout in the wake of the world financial crisis, which is coupled with a marked decline in America's hard and soft power. More importantly, the Chinese Communist Party (CCP) leadership is gunning for a paradigm shift in geopolitics, namely, new rules of the game whereby the fast-rising quasi-superpower will be playing a more forceful role. In particular, Beijing has served notice that it won't be shy about playing hardball to safeguard what it claims to be "core national interests."

The pugilistic turn in China's Great Leap Outward is stated by several well-known academics and advisers to the Chinese government. According to the Li Wei, president of the high-profile China Institute of Contemporary International Relations (CICIR), there is a reawakened resolve on the part of Beijing to do whatever it takes to defend "core interests" such as Taiwan and Tibet. Referring to the country's new-look foreign policy since late last year, Li said: "We have become a more pro-active and much more mature [global player]." Professor Yuan Peng, an America expert at CICIR, which is affiliated with the Ministry of State Security, is even more forthright about his country's global strategy. He said Beijing's unusually harsh reactions to Washington's arms sales to Taiwan and President Barack Obama's meeting with the Dalai Lama amounted to a game changer. "China wants to change the rules of the game," said Professor Yuan. "The U.S. leadership had sold arms to Taiwan and met with the Dalai Lama, and we had scolded the U.S. before. But this time, it's real rebuke and real *fanzhi* (counter-control)" (*Global Times* [Beijing], February 3; Sina.com.cn, February 22).

Likewise, Central Party School strategist Gong Li said Beijing should "not yield a single inch" as far as matters such as Taiwan and Tibet are concerned. Professor Gong said while China is not yet a superpower that can throw its weight around on a global scale, Beijing should "brandish

the sword" in areas affecting the country's "core values and major interests." According to Yang Yi, a well-known scholar at the Beijing-based National Defense University, China has been thrust to the forefront of the global stage by force of circumstances. "Under such circumstances, it's better that we take the initiative and be proactive and creative," said General Yang. When faced with challenges and provocations, China should "show the flag and hit hard [at opponents]," he added. "While we may suffer temporary damage, it is imperative that our opponent be dealt a blow that it cannot sustain" (China News Service, February 27; Sina.com.cn, February 22).

Central to Beijing's novel *modus operandi* is cracking the whip on whoever dares impinge upon the country's vital interests. In reaction to perceived provocations from Washington, the CCP administration has as in the past scaled down diplomatic exchanges particularly in the military sphere. A planned American tour by the People's Liberation Army (PLA) Chief of the General Staff General Chen Bingde has been indefinitely postponed. For the first time, however, Beijing has threatened to penalize American businesses, for example, Boeing and other companies that are manufacturing weapons due to be sold to Taiwan. Moreover, the leadership under President Hu Jintao seems to have injected aspects of Chairman Mao's "people's war" into its diplomatic struggle against the United States. For instance, several official media and websites have urged citizens, particularly China's famously nationalistic *fenqing* ("angry young men and women") to join on-line signature campaigns to condemn the alleged "anti-China" and "belligerent" policies of the Obama administration (*China Daily*, February 24; *Ta Kung Pao* [pro-Beijing Hong Kong daily], February 26; *Global Times*, February 1).

An equally potent punitive measure is to stop helping the United States on the Iran and North Korea fronts, two key areas where Beijing's contributions or at least acquiescence are eagerly sought by Washington. This is despite the fact that shortly before his first China visit last November, Obama had sent two senior aides from the National Security Council to Beijing to secure the Hu administration's assistance in reining in the nuclear programs of Tehran and Pyongyang. And it was apparently due to Beijing's positive response that Obama steered clear of controversial issues such as human rights during his China tour. Soon after Obama left Beijing, Beijing joined 25 other members of the International Atomic Energy Agency in rebuking Iran for concealing a uranium enrichment facility (*New York Times*, February 25; *Washington Post*, November 26, 2009). Since early this year, however, Chinese diplomats have pulled back from active cooperation with the United States in putting pressure on Iran and North Korea regarding their nuclear gambits. For example, Beijing indicated

last month that it was opposed to sanctions against Iran, whose energy cooperation with China has become more entrenched than ever (*New York Times*, February 5; *The Telegraph* [London], February 28).

Also intriguing is the enhancement of the quasi-alliance relationship between Beijing and Pyongyang. The Hu leadership has approved more economic aid and investment in the DPRK, which is reportedly poised to lease two islands to Chinese entrepreneurs for 50 years. Dear Leader Kim Jong-Il is due to visit Beijing later this year. While meeting Kim Yong-Il, director of the North Korean Workers Party's International Department in Beijing last week, President Hu indicated that Beijing was prepared to "further develop the traditional China-Korean friendship and raising China-Korean friendly ties to new levels." More significantly, the Chinese supremo did not say a single word about either denuclearization in the Korean Peninsula or the Six-Party Talks on resolving the Korean crisis. This has raised fears that while Beijing is officially committed to reviving the Six-Party Talks, it is not about to pressurize the wily Kim into make any substantial concessions (Xinhua News Agency, February 23; *Wall Street Journal*, February 26).

Beijing's hardened diplomatic posture is not confined to the United States – or to issues relating to thwarting so-called secessionist conspiracies in Tibet or Taiwan. Since late 2009, Chinese cadres have used strong-armed tactics to counter perceived efforts by foreign governments, institutions and companies to "infiltrate and subvert" the socialist order. The CCP administration's on-going row with Google and a host of multinational IT companies is partly predicated upon fears that, in the words of Minister of Public Security Meng Jianzhu, "the Internet has become a major vehicle through which anti-China forces infiltrate and subvert" the country (*The Guardian* [London], January 13; *Ming Pao* [Hong Kong] February 23).

CCP authorities have also displayed more zealotry in curbing apparent efforts by respected international institutions to give moral and other kinds of support to the country's dissident community. Chinese diplomats based in Oslo have leaned heavily on the Norwegian government not to allow famous dissident Liu Xiaobo – who was given an 11-year jail term last December for "inciting subversion" against the Communist regime – to be awarded the Nobel Peace Prize later this year. This is despite the fact that Norwegian authorities have no control over the decision of the Nobel Peace Prize Committee. In late 2009, the Chinese government also pulled out all the stops to oblige the organizers of the Frankfurt Bookfair to withdraw invitations to two moderate dissident writers, Dai Qing and Bei Ling, to give talks at the global cultural event (*Apple Daily* [Hong Kong], February 9; *Asianews.It.com*,

February 4). These big-bully tactics appear to constitute a breach of the CCP administration's time-honored principle of "non-interference in the internal affairs of other countries." Beijing has invoked this principle when telling foreign governments and human rights watchdogs not to criticize the country's human rights record.

There are indications, however, that the Hu leadership's assessment of China's unprecedented power projection has been less than satisfactory – and that the foreign-policy establishment has at least temporarily switched back to a more moderate if not conciliatory stance. For example, Beijing has so far not announced specific punitive measures against U.S. corporations. And while military-to-military exchanges have been suspended, the Foreign Ministry last month allowed the U.S. aircraft carrier USS Nimitz to make a port call on Hong Kong (*Wall Street Journal*, February 19; *AFP*, February 11). More significantly, senior officials have sought to reassure the global community that China is not harboring "hegemonic" aspirations. On his recent European tour, Foreign Minister Yang Jiechi reiterated the familiar doctrine that China's rise will not upset the global order. "The logic that 'a strong country will become hegemonic' is contrary to China's history," Yang said. "This is also against the intention of the Chinese people." Citing Confucius' famous dictum, Yang added that "'maintaining harmony in the midst of differences' is a value much treasured by the Chinese people" (*China Daily*, February 8; *China News Service*, February 6).

A likely factor behind the apparent softening of Beijing's diplomatic gambit could be fears of a backlash from countries that have been burnt by the fire-spitting dragon. General Yang Yi has warned of the danger of the emergence of an "anti-China coalition" in the West. "Some Western nations may adopt the formula of 'making individual moves to produce the effect of concerted action' – and join the 'contain China' camp one after the other," he said. Under this scenario, the well-known strategist added, "[anti-China] measures may come one after the other the rest of the year." A late February commentary by the Beijing-run Hong Kong journal *Bauhinia* also drew attention to the possible worsening of the international climate this year. The monthly magazine noted that Western countries' dependence on China might lessen in the wake of the global economic recovery. "It is possible the West will put more pressure on China over issues such as Tibet, Xinjiang, human rights, the value of the Renminbi as well as trade protectionism," the commentary said. "Forces calling for the 'containment of China' may also rear their head" (*China News Service*, February 27; *Xinhuatimes.net*, February 4).

Irrespective of the trajectory of Beijing's bid to change

the rules of the game of global intercourse, a number of disturbing questions have been raised about the means as well as the end of geopolitics with Chinese characteristics. The CCP leadership's apparent willingness to acquiesce in the nuclear ambitions of Iran and North Korea – if only in the context of punishing the Obama administration – smacks of shortsightedness if not failure to live up to its international responsibilities. Saber rattling against the U.S. may also constrict Beijing's room for maneuver. Take, for example, the issue of the Renminbi, which has been pegged to the U.S. dollar for more than a year. If only for the purpose of not being seen as succumbing to American pressure, Beijing has refused to entertain even a moderate appreciation of the Chinese currency (*Wall Street Journal*, February 19; China News Service, February 4). This is despite the fact that a mild concession on this front could reap a bonanza of goodwill from not only the United States and the European Union but also dozens of the nation's trading partners.

There are also fears that in his eagerness to stir up nationalistic fervor, President and Commander-in-Chief Hu may have given too much leeway to his generals to express irresponsible anti-American sentiments. A case in point is recent threats issued by several hawkish PLA officers to penalize Washington by dumping China's holdings of American government bonds (*Asia Times* [Hong Kong], February 9; Washingtonindependent.com, February 10). While Beijing may seem justified in expecting Western countries to make certain adjustments in their dealings with a much-strengthened China, the CCP administration must first make sure that its commitment to global fair play is not compromised by what critics consider to be the overweening ambitions of a geopolitical parvenu.

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The Role of U.S. Arms Sales in Taiwan's Defense Transformation

By Michael S. Chase

On January 29, 2010, the U.S. Department of Defense's Defense Security Cooperation Agency (DSCA) announced the approval of a major, long-awaited arms sales package for Taiwan. The \$6.4 billion deal includes Patriot advanced capability (PAC-3) missiles along with radar sets and related equipment, UH-60M Blackhawk helicopters, Osprey class mine hunting ships, Multifunction Information Distribution Systems terminals, and Harpoon telemetry missiles. China quickly expressed its indignation and blasted the decision as interference in its internal affairs. Beijing also retaliated by suspending some U.S.-China military-to-military exchanges, a move that was widely expected. This time, however, China reacted more assertively than it has in the past, including threatening to impose sanctions on the U.S. companies involved in selling weapons to Taiwan. China even warned of broader consequences for bilateral relations, perhaps to include turning a cold shoulder to U.S. requests for cooperation on other international problems such as Iran and North Korea [1].

Assessments of the motives underlying China's reaction to the arms sales announcement and its potential ramifications for U.S.-China relations have dominated media coverage and online punditry, but an equally important question, and one that has been largely overlooked, is that of Taiwan's future approach to defense transformation and arms procurements from the United States. The cross-Strait rapprochement that has taken shape since Ma Ying-jeou became President of Taiwan in 2008 has thus far featured four rounds of talks between the two sides respective semi-official negotiating bodies, Taiwan's Straits Exchange Foundation and China's Association for Relations Across the Taiwan Strait, resulting in a series of 12 agreements on issues such as the establishment of direct cross-Strait flights, financial cooperation, food safety, mainland tourist visits to Taiwan, and law enforcement cooperation. Taiwan and China are also preparing for a fifth round of talks and continuing to negotiate the details of a proposed cross-Strait Economic Cooperation Framework Agreement (ECFA).

This cross-Strait detente has sparked some debate in Taiwan about the extent to which the island still needs to spend large sums of money on defense transformation and arms procurement from the United States (*Taipei Times*, March 20, 2009). Some argue that Taiwan still needs to modernize its military and purchase advanced weapons from the United States because a strengthened defense

posture is a crucial to support Taipei's efforts to develop a more stable and constructive cross-strait relationship while protecting its interests (*Taipei Times*, February 1). "The relaxed tensions depend very much on the continued supply of arms from the United States to Taiwan," President Ma said in a December 2009 interview. "Certainly Taiwan will not feel comfortable to go to a negotiating table without sufficient defense buildup in order to protect the safety of the island" (*Wall Street Journal*, December 15, 2009). Similarly, Taiwan's MND greeted the recent U.S. announcement with a statement underscoring its position that the arms sales "would enable Taiwan to be more confident in seeking reconciliation with China and help peace and stability in the Taiwan Strait" (*Wall Street Journal*, January 21).

As for future plans regarding arms sales, senior defense officials in Taiwan continue to argue that procuring weapons from the United States remains vital to achieving defense transformation objectives. According to Defense Minister Kao Hua-chu, "In the future, Taiwan will continue purchasing more weaponry from the U.S. so as to build a smaller and leaner deterrent force" (*China Post* [Taiwan], February 8). Several major arms procurement items remain on the table. Indeed, the latest arms sales notifications did not include two of the most expensive and potentially controversial items that were on Taipei's shopping list—the diesel submarines that President George W. Bush originally approved in 2001 and the F-16 C/Ds Taipei is seeking to replace some of its aging fighters. Some commentators have opined that the exclusion of a submarine feasibility study from the latest batch of Congressional arms sales notifications portends the end Taiwan's long effort to acquire new diesel submarines. According to media reports in Taiwan, however, the Ministry of National Defense has not abandoned its plans to acquire new diesel submarines (*China Post*, February 10). In addition, Taipei is still seeking the F-16 C/Ds, a request that remains under consideration in Washington [2].

Others in Taiwan suggest that warming ties with China obviate the need for expensive arms purchases like submarines and F-16 C/Ds by creating an opportunity for Taiwan to enjoy a "peace dividend." They argue that the more stable relationship with the mainland allows Taiwan to further reduce defense spending without compromising its security. This is an understandable development, but it is also giving rise to concerns about the public's willingness to back the Ma administration's defense transformation programs. "Rapprochement has also softened domestic support for defense modernization," according to Alexander Huang, one of Taiwan's leading defense policy analysts [3]. In conjunction with Taiwan's financial difficulties, this has led some in Taiwan to advocate a reduction in

defense spending even as China's military power continues to grow.

Some in Taiwan are extremely skeptical of the possibility of a "peace dividend," however, favoring a much firmer approach to protecting Taiwan's interests. According to one recent editorial, for example, "there is no 'peace' in the Taiwan Strait that can create a 'dividend'" (*Taiwan News*, January 8). Despite progress in cross-strait economic ties, according to some observers, Taiwan can ill afford to let down its guard because the People's Liberation Army (PLA) continues to expand its deployment of tactical missiles opposite the island and Beijing remains unwilling to renounce its right to use force against Taiwan.

These discussions about Taiwan's evolving security environment and the cross-strait thaw's implications for defense spending and arms procurement highlight the importance of the future direction of Taiwan's defense strategy and the core defense challenges facing Taiwan. At the same time, however, the cross-strait détente poses some challenges in terms of focusing attention on defense issues and winning public support for difficult choices. "The relaxation has in a way mitigated the Taiwan public's vigilance regarding existing Chinese military threats and the growing imbalance of military capability in Beijing's favor," according to Huang. At the same time, however, the warming of cross-strait relations also creates some opportunities for Taiwan's defense establishment. Indeed, one important advantage of the relaxation of cross-strait tension is that it "provides the military with a long-awaited window to focus on full-range transformation with much less pressure on military alertness" [4].

Among Taiwan's key defense transformation priorities, three stand out as particularly important: rethinking Taiwan's defense strategy and developing innovative and asymmetric war-fighting capabilities to address the growing cross-strait military imbalance; enhancing the ability of the armed forces to conduct disaster relief and humanitarian assistance operations; and managing the potentially very expensive transition to an all-volunteer military. Not only must Taiwan address all of these issues simultaneously, but it must do so in a challenging economic environment that continues to impose constraints on the resources available for defense modernization.

Senior officials highlight refining Taiwan's defense strategy as a critical priority because Taiwan needs a strategic framework that will allow it to address the growing military imbalance across the Taiwan Strait and optimize the allocation of scarce resources. Taiwan appears unlikely to fully adopt the "porcupine" strategy that has been proposed as an option to respond to China's growing

capability to coerce Taiwan militarily [5]. Yet, Taiwan's "Hard ROC" defense strategy and its concept of "resolute defense, credible deterrence" incorporate some key elements of the "porcupine" approach. Moreover, senior MND officials have repeatedly highlighted the importance of "innovation" and "asymmetry" in the context of Taiwan's defense transformation. Their comments echo the views expressed by U.S. Assistant Secretary of Defense Wallace "Chip" Gregson in his speech at the most recent U.S.-Taiwan Business Council Defense Industry Conference in September 2009, during which he highlighted the importance of asymmetric approaches and innovative thinking in tackling Taiwan's defense challenges [6].

The ROC military must prepare not only for conventional challenges, but also for non-traditional security missions, such as disaster relief and counterterrorism. In particular, the Typhoon Murakot disaster dramatically illustrated the importance of enhancing the military's preparation for humanitarian assistance and disaster relief operations. The political fallout from the Ma administration's handling of relief operations underscored the pressure the defense establishment will face to rapidly improve its ability to respond to future natural disasters. Consequently, the military may need to face some trade-offs between improving its ability to conduct combat operations and its readiness for disaster relief operations. Top officials insist that enhancing combat operations and deterrence capability remains the military's number one priority, but they also recognize the importance of non-traditional security missions. Indeed, preparedness for disaster relief is clearly emerging as a core mission for the ROC military, with some commentators arguing that natural disasters pose a greater security threat than the PLA given the relaxation of tension with the mainland [7].

Even though it has received less attention from many observers than issues such as defense strategy and the Typhoon Murakot relief efforts, the transition to the all-volunteer force is one of the most critical challenges facing Taiwan's military over the next few years. Given its implications for the future of Taiwan's armed forces it has been identified as one of the MND's highest priorities, as reflected by Taiwan's March 2009 *Quadrennial Defense Review* and the MND's 2009 *National Defense Report*. As part of this transition, the size of the military will decline to about 215,000, and better pay and living standards will be offered to help recruit and retain highly qualified professional military personnel [8].

Importantly, Taiwan requires support from the United States to move forward in all of these areas. Some critics of U.S. policy toward Taiwan, however, contend that continuing to support the island is not worth the risk of alienating an

increasingly powerful and influential China. Perhaps most prominently, retired Admiral and former Vice Chairman of the Joint Chiefs of Staff Bill Owens has argued that U.S. arms sales are no longer needed given the emergence of a more stable and constructive cross-Strait relationship (*Financial Times*, November 17, 2009). Political scientist and former journalist Bruce Gilley has even suggested that "Finlandization" is the appropriate model for Taiwan [9]. Of course, it is true that China's importance to the United States is growing and the recent cross-Strait détente is certainly a welcome development, but U.S. support for Taiwan's security—including but not limited to arms sales—remains vital to Taiwan's defense transformation goals. Indeed, for its part, the United States should regard the recent thaw in cross-Strait ties as an opportunity to help Taiwan strengthen its defense posture.

Perhaps even more importantly, in a larger political sense, U.S. security assistance provides Taiwan with the confidence it needs to pursue a more pragmatic policy toward China without fear of being bullied into a resolution of cross-Strait differences on terms that are unacceptable to the people of Taiwan. U.S. support also discourages China from attempting to coerce Taiwan with the threat of force, not only by strengthening Taiwan's defensive posture, but also by underscoring the continued relevance of America's longstanding commitment to the island's security. These are the main reasons for U.S. arms sales to Taiwan, despite Beijing's unfounded suspicions that such sales are actually intended to undermine cross-Strait reconciliation and contain a rising China [10].

The challenge for the United States and Taiwan is thus crafting policies that enhance the durability of this new cross-Strait détente and create an environment in which Taiwan can work toward the resolution of its differences with China without fear of compromising its core interests. Encouraging further dialogue should be a key element of this approach, but Taiwan's defense transformation will also remain vital to a stable and constructive cross-Strait environment, even as the China-Taiwan relationship moves in a closer and more constructive direction. Indeed, senior officials in Taiwan have underscored that maintaining a credible defense and deterrence capability is a prerequisite to further reducing tension with the mainland. Looking to the future, U.S. support for Taiwan's defense transformation may become even more important if cross-Strait détente eventually moves beyond the realm of economic cooperation and the two sides begin to address potentially far more and sensitive controversial political and security issues. Consequently, Taiwan and the United States must continue working together to address the island's most pressing defense transformation challenges.

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NOTES

1. "Vice Foreign Minister He Yafei Made Stern Representations to the U.S. Ambassador to China on US Arms Sales to Taiwan," Embassy of the People's Republic of China, January 30, 2010, <http://www.china-embassy.org/eng/xw/t655230.htm>.
2. "We're in the process of assessing Taiwan's needs and requirements for that capability," a senior administration said during a late January background briefing. See U.S. Department of State, "Background Briefing on Asian Security," January 29, 2010, <http://www.state.gov/r/pa/prs/ps/2010/01/136286.htm>.
3. Alexander Chieh-chung Huang, "The United States and Taiwan's Defense Transformation," *Taiwan-US Quarterly Analysis*, Brookings, February 2010, http://www.brookings.edu/opinions/2010/02_taiwan_defense_huang.aspx.
4. Huang, "The United States and Taiwan's Defense Transformation."
5. See William Murray, "Revisiting Taiwan's Defense Strategy," *Naval War College Review*, Vol. 61, No. 3 (Summer 2008), pp. 13-38. On Taiwan's response, see Alexander Huang, "The Road Ahead for the ROC Military," *Taipei Times*, March 20, 2009, <http://www.taipetimes.com/News/editorials/archives/2009/03/20/2003438896>.
6. Wallace C. Gregson, "Remarks to the US-Taiwan Business Council Defense Industry Conference," September 28, 2009, http://www.us-taiwan.org/reports/2009_september28_wallace_gregson_conference_keynote.pdf.
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Will China Join the Iran-Pakistan-India Pipeline?

By Stephen Blank

For over a decade Iran, Pakistan and India (IPI) have taken pains at negotiating a major pipeline deal whereby Iran would send natural gas from its territory to the region. Yet geopolitical and commercial issues have repeatedly prevented the deal's fruition despite Tehran's growing need to diversify gas sales to Asian markets and Asian countries desire to find a stable, reliable source of gas supplies. In recent years, India's participation in this project has become more uncertain, which is partly responsible for the long delay that the project has suffered to date. Iran's repeated attempts to raise the price of gas, U.S. pressure on India to refrain from participating in the pipeline, external skepticism about Iranian capability to fill the pipeline as it promises, Indian concerns about the overall stability of Pakistan, and in particular, the possibility of terrorism in Pakistan's Balochistan province through which the pipeline would travel all contributed to India's angst (*Jane's Intelligence Review*, February 11). Indeed, Iran recently warned India that there is a limit to its patience in waiting for New Delhi to decide (*Thaindian.com*, February 9). Iran was apparently able to present this ultimatum because it believes that it now has the "China card" in its deck. In early February, Iranian Foreign Minister Manucher Mottaki reportedly said that Iran was ready to start the pipeline at any time—even without India—and urged Pakistan not to heed U.S. pressure against the pipeline as China could soon replace India in the deal (*Press Trust of India*, February 8).

BACKGROUND

Iranian President Mahmoud Ahmadinejad and his Pakistani counterpart Asif Ali Zardari inked a \$7.5 billion agreement in Tehran on May 23, 2009 to transfer gas from Iran to Pakistan. According to the deal, Iran will initially transfer 30 million cubic meters of gas per day to Pakistan, but will eventually increase the transfer to 60 million cubic meters per day. The pipeline will be supplied from the South Pars field. The initial capacity of the pipeline will be 22 bcm of natural gas per annum, which is expected to be raised later to 55 bcm (*Zawya.com*, February 5).

After many months of negotiations, on February 11, 2010 Islamabad and Tehran were able to finalize the agreement on the issues, including the issuance by Pakistan of a "comfort letter" that provided Iran with the assurance that India—or China—could be brought into the project later. The two parties have vowed to sign the formal agreement by March 8 in Ankara, Turkey. *The News* reported:

Under the comfort letter, the government of Pakistan would allow the third country to import gas through [the] IP [Iran-Pakistan] line in case any country in future comes to join the project, but the permission will be subject to the gas tariff and transit fee to be worked out as per best practices of that time (*The News* [Pakistan], February 15).

CHINESE INTERESTS IN THE IPI PIPELINE

Perhaps the most interesting aspect of Iran's most recent announcement is that China has yet to comment publicly on the pipeline except that it is studying the Pakistani proposal. And that was in 2008. Chinese foreign minister, Yang Jiechi said at that time: "We are seriously studying Pakistan's proposal to participate in the IPI gas pipeline project" (Steelguru.com, May 3, 2008; Asia Times Online, March 6, 2008).

Pakistan clearly wants China to join the pipeline for many reasons. Islamabad desperately needs the gas that might not come otherwise if there is no third party to make the deal profitable to Iran. Second, it would gain much revenue from the transit fees for the gas going to China and benefit considerably from the ensuing construction of infrastructure within Pakistan. Third, it would further solidify its "all-weather" relations with China. Those goals have always been part of Pakistan's foreign policy and explain not only its interest in the original pipeline plan but also its previous invitations to China to join the project. The prospect of an invitation to China was also used in the past to galvanize India's decision-making process regarding the pipeline (Steelguru.com, May 3, 2008; Asia Times Online, March 6, 2008).

Throughout the spring of 2008, former Pakistani President General Pervez Musharraf and his government frequently courted Chinese leaders to join the pipeline project, a pitch that Musharraf also tied to an earlier proposal of establishing a corridor linking Pakistan to China through rail, road and fiber optics. At that time, China promised to consider the proposal and then asked for more information, but did nothing else, leaving the issue in abeyance (*Indian Express*, April 15, 2008; *The Indian*, June 19, 2008). Subsequently, Pakistani media reports claimed that China was keen on joining the pipeline and would send a delegation to negotiate the deal, but clearly, nothing came of it (*The Indian*, June 26, 2008). In 2009, Iran's ambassador to India, Seyid Mehdi Nabizadeh, told Indian journalists that China was interested in the pipeline, but he too refused to confirm if talks with China were taking place (*The Indian*, September 15, 2009). Based on this precedent, it may be possible that these Pakistani and Iranian gambits were spurious to begin with and its

purpose was to pressure India or entice China into joining the pipeline project.

There is considerable interest among external observers in the pipeline and from Chinese officials have sporadically expressed an interest in it. For example, China's ambassador to India in 2006, Sun Yuxi, said that China has no objections to the IPI, while India's minister for State Planning M.V. Rajashekar, also said that once the pipeline is completed it could be extended to China [1]. Gazprom and the Russian government have long since indicated a desire to participate in sending oil and/or gas to the subcontinent through the IPI (*ITAR-TASS*, April 17, 2007). Indeed, one Russian official, Gazprom's man in Tehran, Abubakir Shomuzov, has even advocated extending the IPI pipeline to China to tie Russia, China, India, Pakistan and Iran together in a very big project having major strategic implications as well as a huge number of consumers. Presumably, such statements—if not plans—are intended to mollify Chinese concerns about the possibility of Russian energy being diverted from it to India (*The Hindu* [Internet Version], May 7, 2007). Nevertheless, if one correlates China's recent maneuvers in Central Asia concerning pipelines with its deals with Iran, it is clear that China is contemplating a pipeline network running from Iran either through Central Asia, or prospectively through Pakistan and/or India to China (*Central Asia Caucasus Analyst*, September 19, 2007).

In this context, the IPI pipeline poses several risks and opportunities for Beijing. If India exited the pipeline, that would lessen Iran's leverage to drive a hard bargain on gas prices. At the same time, as part of the overall strategy to build pipelines from Iran to China, or at least to Gwadar from where gas or oil could be shipped directly to China, Chinese participation would create a new overland energy link that could complement China's energy diversification strategy. Nevertheless, the project also faces several political and logistical difficulties that could scuttle Chinese participation. The pipeline is planned to traverse a very difficult terrain in Pakistan's Gilgit region. That would increase the costs and time required to eventually connect the pipeline to Xinjiang. Moreover, the risks inherent in Pakistan and Iran also pose problems. The massive investment required to link China to the pipeline would be susceptible to many risks since it falls along a major fault line of instability, as there could be large-scale terrorism in the territory of the pipeline or more generally from a mass civil upheaval in Pakistan. In view of these positive and negative aspects to the deal, some observers suggest that Beijing might just be feigning interest in the IPI pipeline to get a better deal in negotiations with Russia on relatively safer Siberia-China gas pipelines [2]. Certainly if the prospect of China obtaining a secure and stable supply

of gas from Iran would reduce its need to get that gas from Russia and give it even more leverage over Russia in the current negotiations on gas pipelines from Siberia to China than it already possesses [3].

There is another aspect to this deal too. China has recently stuck its neck out for Iran in its call for continuing negotiations with Iran over its nuclear enrichment programs irrespective of the fact that Tehran is clearly defying the IAEA and the offers of the six negotiating partners (United States, Great Britain, France, Germany, and Russia). On February 24, 2010 Foreign Ministry Spokesman Qin Gang stated that, “China holds that the parties should continue to step up diplomatic efforts in a bid to maintain and promote the process of dialogue and negotiations,” said Qin, “China hopes the parties demonstrate more flexibility and create conditions conducive to a comprehensive and proper solution to the Iran nuclear issue through diplomatic means” (*China Daily*, February 24).

Chinese sources also report that Iran is able to resist the United States because the political situation in Iran is stabilizing (Xinhua News Agency, February 24). This suggests a more optimistic view of the domestic situation in Iran than might be the case elsewhere. Likewise, it appears that China suspects U.S. motives in the region. High-level visits by U.S. Secretary of Energy Steven Chu to Saudi Arabia and by another high-level Israeli delegation to China aim to wean China away from Iran in return for the United States brokering increased oil exports from Saudi Arabia to China. The Chinese media apparently considers this a trap to get China to renounce its principles for transitory economic gain (*China Daily*, February 24).

CONCLUSION

At the same time, if China did become a full partner in the IPI pipeline that would offer it another opportunity to build on Beijing’s so-called strategy of building what has been called a “string of pearls” across the Indian Ocean. Chinese officials have publicly stated their desire to turn the Chinese-built Pakistani port of Gwadar into an energy hub. China also has substantial interests in overland transport links in Pakistan through the Karakorum Highway and participation in the IP pipeline would extend those interests deeper. Indeed, many observers in New Delhi and Washington view Sino-Pakistani collaborations to build naval facilities and oil refineries at Gwadar as a prelude to the establishment of a Chinese naval base there. Whether this is true or not, if China joins the IPI project, then the odds of China supporting American efforts to isolate Iran would effectively be reduced to zero because it would depend too much on Iranian gas, in addition to its recent

oil contracts to antagonize Iran by siding with Washington [4]. While we wait to see how China decides to play this issue, the United States needs to understand that Beijing’s decision to join or stand aloof from this pipeline will have major geopolitical repercussions and comparable geo-economic repercussions across Asia, another sign not only of the integration of south and southwest Asia with East Asia, but also of China’s rising importance as the nexus of the Asian continent.

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NOTES

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Military Cooperation between China and Central Asia: Breakthrough, Limits, and Prospects

By Sébastien Peyrouse

In just a few years, China has emerged as an indispensable economic partner to the Central Asian states. Beijing is on track to surpass Moscow in its trade flows with Central Asia: In 2008, trade between China and Central Asia exceeded \$25 billion, while trade between Russia and Central Asia was \$27 billion [1]. On the security front, the Chinese authorities have managed to maintain security along its borders with Kazakhstan, Kyrgyzstan and Tajikistan through the demilitarization of the former Sino-Soviet border, the birth of a collective security framework through the Shanghai Cooperation Organization (SCO), and increasingly frequent meetings between high-level officers. The risk of a Uighur secessionism funded from behind Central Asian borders has also been largely erased [2], even if the events of 2008 and 2009 in Xinjiang confirmed that some diasporic groups, in particular based in Kyrgyzstan, were able to make known their disagreement. China remains alarmed about the security challenges in the region,

including the risk of political instability, Islamist insurgent movements, the growth of drug routes, and U.S. presence at the Manas base in Kyrgyzstan. The strategic partnership with the governments in Central Asia is therefore a key element for Beijing, although military cooperation *per se remains limited. Yet, the long-term impact of the Xinjiang riots, which remains unknown, Al-Qaeda's announcement that it will attempt to target China, and the possibility that Islamists will try to transform Central Asia into a zone of unrest (Daily Time, February 21), can only lead the Chinese leadership to get more actively involved in the securitization of Central Asia.*

JOINT EXERCISES AS A FOUNDATION OF COLLECTIVE MILITARY OPERATIONS

Military cooperation between China and Central Asia is overwhelmingly dominated by joint exercises, conducted in a bilateral or multilateral manner.

At first, the exercises conducted within the framework of the SCO were bilateral. In 2002, the first joint exercises between China and Kyrgyzstan were held. It was not until August 2003, in eastern Kazakhstan and Xinjiang, that the first multilateral military exercises took place, involving thousands of Chinese, Russian, Kazakh, Kyrgyz, and Tajik military personnel. All member states, except Uzbekistan, participated. In 2006, the East anti-Terror exercises in Uzbekistan were held, in which all the security services were involved (*Central Asia and Caucasus Analyst*, April 5, 2006). The same year, in the Kuliab region, Sino-Tajik military exercises against terrorist groups in the mountainous areas brought together 300 members of Tajikistan's armed forces and 150 members of China's military. Similar exercises were held that year in Kyrgyzstan (*East Time [Russia]*, January 22, 2009). In 2007, two joint military exercises were organized. The first, called "2007 anti-Terror Issyk-Kul" took place in late May on the shores of Lake Issyk-Kul and brought together SCO soldiers, as well as officials from the CSTO, and representatives of the security agencies and special services of each member state. Terrorist attacks inspired by those that took place in 1999 and 2000, including exercises in mountainous terrain and hostage scenarios, were simulated. From August 9 to August 17, 2007, Russia hosted in the Chelyabinsk region a new "peace mission" that included all SCO members [3]. In 2009, there were joint exercises in the northeast of China with more than 3,000 soldiers in a naval scenario likely related to Taiwan or North Korea. In total, since 2002, China has participated in more than 20 bilateral or multilateral military exercises with other SCO members.

In 2010, exercises will be held on the Matybulak polygon in the Semirechie region of Kazakhstan, where a number

of military experts from China and Russia have already prepared the simulations, as well as in Russia (Rian.ru, April, 29, 2009; *Nezavisimoe voennoe obozrenie*, January 15). Despite the emphasis on cooperation, these exercises are not always undisputed and reflect the distrust that exists between officers, especially Russian and Chinese ones, and the tensions among the Central Asian states. In 2009, Tashkent, for example, refused to participate in the anti-terror exercise conducted in the framework of the SCO in Tajikistan near the Afghan border, as a way of manifesting the Uzbek discontent at Dushanbe, at a time when the crisis between the two capitals on the matter of the construction of hydroelectric stations reached its highest pitch.

CHINESE MILITARY ASSISTANCE TO CENTRAL ASIA

Bilateral cooperation is mainly oriented toward technical support from China to the Central Asian militaries and aid for training.

Given a strong growth of trade between China and Kazakhstan, the latter remains the preferred partner of Beijing in the region. Since 2000, both countries have signed agreements for Chinese material and technical equipment worth one million dollars, intended in particular to "buy" Kazakhstan's struggle against Uighur separatism and religious extremism [4]. In total, between 1997 and 2003, Astana has received 30 million Renminbi (RMB) (\$4.5 million) of technological aid, communications equipment, and transportation (e.g. Jeeps) (Rian.ru, April 28, 2004). Kazakhstan has clearly expressed its intention to obtain more military equipment from the Chinese People's Liberation Army (PLA) and hopes to take advantage of free transfers of decommissioned military assets when the Chinese army engages in modernizing its equipment (See "Sino-Kazakh Relations: A Nascent Strategic Partnership," *China Brief*, November 7, 2008). Under the joint counterterrorism operations, Kazakhstan wants to take advantage of the expertise and experience of China, which has strengthened its special forces in this area (*Central Asia and Caucasus Analyst*, May 9, 2007). This cooperation was initiated in the framework of the Tian Shan operations in 2006. The new Kazakh military doctrine presented in 2007 attaches special importance to the bilateral security relationship with China, but without taking away Russia's prominent role [5]. Given growing drug trafficking, border cooperation is a priority area. Since 2008, the two countries have conducted several joint operations against traffickers.

Aid to the other states is more modest. During a meeting between the defense ministers of China and Turkmenistan in 2007, it was decided that China would equip the Turkmen army with precision equipment and uniforms

for officers and soldiers, offering a \$3 million loan for its military needs [6]. This decision, taken less than a year after an agreement by which Ashgabat provides 30 bcm of gas to Beijing, reflects China's concerns regarding the ability of the Turkmen army to prevent any attacks against its energy supplies.

Beijing is also trying to expand its military cooperation with its two immediate neighbors, Kyrgyzstan and Tajikistan. In 2005, an official visit of the Chinese minister of defense to Dushanbe led to the signing of several military cooperation documents, although they are limited in scope. The two countries are expected to share intelligence in the fields of terrorism, drug trafficking, and organized crime (See "China quietly Increases Military Links with Tajikistan," *Eurasia Daily Monitor*, September 21, 2005). Between 1993 and 2008, Beijing has provided 15 million dollars in aid to Tajikistan (Ni-hao.ru, May 15, 2008). Moreover, in April 2009 Beijing pledged \$1.5 million to Tajikistan's military, the latest in a series of financial aid packages for the region's armed forces (Eurasianet, May 4).

Under an agreement signed in 2002 in Bishkek, China has also provided technical military assistance to Kyrgyzstan worth \$1.2 million. In August 2008, China delivered military equipment to the Kyrgyz border services (vehicles and computers) for a sum of about \$700,000 (*Novosti Kyrgyzstana*, August 13, 2008) [7].

With Uzbekistan, relations are more complex. In 2000, China made a first step on to the Central Asian arms market, delivering sniper rifles to Tashkent. In 2009, the two countries signed a new agreement whereby Beijing provides \$3.7 million to the Uzbek authorities to equip its border crossings with mobile scanning systems [8]. For the Central Asian governments, equipment and training from the Peoples' Liberation Army is another welcome balance to the supplies of outdated Soviet hardware which is sometimes offloaded by Moscow.

Finally, training aid is attempting to develop, however modest. For example, exchanges have been organized to train military cadres, but the language barrier hinders prospects. All courses for Central Asian officers in Chinese military academies are taught in Russian, Chinese instructors are not able to speak the Central Asian languages, and Central Asian officers cannot speak Chinese. Between 1990 and 2005, only 15 Kazakh officers were sent to China for training. Yet this cooperation has grown-- between 2003 and 2009, 65 members of the Kazakh military took courses in Chinese institutions (*Trends Kazakhstan*, December 25, 2009; *Atyrau*, January 26, 2009). Further negotiations in this area were organized between the two countries at the beginning of 2009. Thirty

Kyrgyz officers also received training in China (Centrasia.ru, July 12, 2004) [9]. In 2008, 30 members of the Tajik army also trained in Chinese military academies [10].

THE AREAS OF FUTURE SINO-CENTRAL ASIAN MILITARY COOPERATION

In the coming years, four areas seem destined to boost military cooperation between China and Central Asia.

The first concerns the fight against drug trafficking. Although for the moment bilateral Sino-Kazakh operations constitute a unique and undeveloped case, it is likely that such a system will also be implemented in Kyrgyzstan and Tajikistan, the most fragile countries of Central Asia, the ones with the most porous borders and with numerous drug routes spanning their territories that aim increasingly at the Chinese market. One can also assume that Beijing will try to build on the momentum of the CSTO in the field, with the institutionalization in 2009 of the annual anti-drug operation "Kanal," which appears to satisfy all member states. China would indeed like to reproduce this model, at least partially, by organizing limited bilateral operations (Sino-Kazakh, Sino-Kyrgyz, and Sino-Tajik) rather than multilateral ones in the fight against drug trafficking.

A second theme pertains to the possibility of creating collective peacekeeping brigades mainly to go to Afghanistan. The persistent requests from Moscow and Beijing to be better consulted by NATO and the United States require that the SCO may in the near future offer some form of humanitarian intervention in Afghanistan [11]. The Afghan authorities themselves support such projects. The increasing engagement of China and Russia in this country and their growing economic interests there would push for the creation of such a force. This could have a symbolic function, like the Kazbrig in Iraq; however, it would signal the strengthening of Sino-Central Asian cooperation and confirm the ability of political actors to establish collective action toward Kabul.

It is probable that China aspires to develop its cooperation with Central Asian governments on counter-terrorism, but so far this cooperation has remained chiefly at the level of declarations of intention. Cases of Uighur dissidents being expelled from Central Asia at China's request seem to have been extremely rare. However, the fresh upsurge of Islamist activism in Central Asia following recent developments in Afghanistan and Pakistan as well as the renewal of tensions in Xinjiang might push Beijing to request more joint action. Yet, the Central Asian governments do not want this cooperation to become an argument for Beijing's interfering in their internal affairs. Until now, the Chinese

authorities have remained cognizant of the reticence harbored by Central Asian governments and have not sought to hurry cooperation on extremely sensitive issues relating to national security.

Last but not least, the fourth area of cooperation pertains to the protection of Chinese energy assets in Central Asia. This domain is probably the one expected to grow most rapidly and with the least political resistance, since the objective is clearly economic. The inauguration of the gas pipeline between China and Central Asia in December 2009 gave China a new argument in favor of such a line of cooperation, which strengthens already existing concerns about the safety of the Sino-Kazakh pipeline. The December 2009 meeting between Vice President of the Central Military Commission Guo Boxiong and Kazakh Minister of Defense Adilbek Dzhaksybekov confirms that discussions on this subject were conducted in high places. Unlike Western countries, China has not yet developed strategies to protect its interests (pipelines and companies) and expatriates overseas. The Central Asian authorities do not wish to let the Chinese military secure Chinese interests on their territories, for obvious reasons of national sovereignty [12]. Everything thus leads toward the establishment of mixed brigades for monitoring and protection, probably for the pipelines first of all and then Chinese companies in a more distant future.

CONCLUSION

The ability of China to strengthen its military cooperation with the Central Asian states is limited. Central Asian officers remain suspicious of their Chinese neighbor, doctrinal traditions are very different, and the language gap may take generations to overcome. Furthermore, it is difficult to supplant Moscow in this realm, since Russia remains largely in control of the training of Central Asian officers and oversees much of the military operations of Central Asia within the CSTO, the CIS Anti-Terrorism Center, and the CIS Council of Border Guard Agency Commanders. In addition, Moscow sells weapons at domestic market prices and China remains one of the largest customers of the Russian military-industrial base (Note: Vietnam became Russia's biggest arms client in 2009 in terms of new contracts, having ordered six diesel-electric submarines and 12 Su-30 fighter jets, according to the calculations of the Center for Analysis of Strategies and Technologies (CAST)). Central Asia has more interest in preserving its interaction with Russia than on the Chinese market for weapons, which is still too weak. Yet, the situation will change in coming decades, when the Chinese army frees itself from Russian technology (the trend is leading there). For now, military cooperation between China and Central Asia is limited to the organization of joint exercises, which

can display superficial collaboration, and Chinese material support of Central Asian armies via technology requests (computers and scanners) or even just uniforms and cars.

The exchange of strategic information and weapons sales is minimal, and each state continues to see its security primarily in national terms. The Central Asian governments do not want the opening of any Chinese military bases on their territory and are unofficially concerned about the presence of the Chinese secret services. Declarations made by a senior Chinese military leader about the possibility of intervening in Central Asia (*Ta Kung Pao* [Hong Kong], September 24, 2009), have not been officially commented on by the Central Asian capitals, but the latter's silence is revealing of local unwillingness. The ruling elites are doubly concerned by possible Islamist destabilization, which would be dangerous for their internal stability, but which might also serve as an argument for Beijing to establish itself militarily in the region, and thus force the Central Asian states to revalorize the Russian counterweight. Yet, new areas of cooperation are emerging in regard to nontraditional threats, requiring that conventional state frameworks be surpassed: the protection of Chinese economic interests in Central Asia; joint struggles against drug trafficking; and potential humanitarian intervention in Afghanistan.

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