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CHINA'S NORTHWEST ECONOMIC IMPORTANCE FOR STABILITY IN CENTRAL ASIA

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China's Xinjiang Uyghur Autonomous Region (XUAR) is most closely associated with the violation of human rights and freedoms of the Uyghurs, a national minority of Muslims of Turkic origin. Most of the publications on this topic are by Western scientists, journalists, and analytical centers, and formed the basis for the introduction of sanctions against individual companies and entire industries where forced labor was proven. However, there are no similar independent studies by Ukrainian scientists. The economic aspects of the region's development, the consequences of sanctions for the economic activity of enterprises and the people of Xinjiang, in particular, are insufficiently researched.

The author analyzed the economic condition of the modern XUAR, which was affected by the Covid-19 pandemic and sanctions. Particular attention is paid to the stimulating measures taken by the Chinese government to support the growth of the region, such as economic development projects like the «Great Western Development Strategy» (这是大学乐).

XUAR has strategically important political and economic significance for the stability not only of China, but also of Central Asia. Firstly, the geographical position in the North-West of the country with the largest land border, where the terroristic and separatist sentiments have been successfully curbed. Secondly, the wealth of natural resources and a favorable climate for agriculture and the development of alternative energy sources. The recent visit of the head of the People's Republic of China to Xinjiang and the change of the head of the region to Ma Xingrui, who was previously in charge of Guangdong, are positive signals for local businesses and people.

On the basis of statistical data, analytical materials of scientists, journalistic publications, and communication with colleagues who visited XUAR, the author came to the conclusion that the region has positive development trends, and the level of well-being of households in the region is increasing.

The purpose of this study is to analyze the current economic state of XUAR in terms of priority directions of growth and under the influence of the risks of the pandemic and Western sanctions, to characterize the economic profile of the region from the perspective of further strategic development, taking into account the importance of the autonomous region for the government of the country, its business activity and political stability, and China's growing influence in Central Asia.

Keywords: China's Xinjiang Uyghur Autonomous Region, the Uyghur Forced Labor Prevention Act, economic sanctions, Uyghurs, Belt and Road Initiative, Central Asia.

ЕКОНОМІЧНЕ ЗНАЧЕННЯ ПІВНІЧНО-ЗАХІДНОГО РЕГІОНУ КИТАЮ ДЛЯ СТАБІЛЬНОСТІ У ЦЕНТРАЛЬНІЙ АЗІЇ

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Сінцзян-Уйгурський автономний район (СУАР) Китаю здебільшого асоціюється з порушення прав і свобод уйгурів, національної меншини мусульман тюркського походження. Більшість публікацій на цю тему було зроблено західними науковцями, журналістами, аналітичними центрами, які лягли в основу впровадження санкцій проти окремих компаній та цілих індустрій, де були встановлені факти примусової праці. Однак подібні незалежні дослідження українських науковців відсутні. Недостатньо досліджені економічні аспекти розвитку регіону, наслідки санкцій для господарської діяльності підприємств та населення Сінцзяну зокрема.

Автором проаналізований економічний стан сучасного СУАР, який зазнав впливу пандемії та санкцій. Окрема увага приділена стимулюючим заходам, до яких вдається уряд КНР, підтримуючи зростання регіону, економічним проектам розвитку, таким як «Велика західна стратегія розвитку» (西部大开发).

СУАР має стратегічно важливе політичне та економічне значення для стабільності не тільки Китаю, а й регіону Центральної Азії. По-перше, географічне положення на північному-заході країни із найбільшим сухопутним кордоном, де вдалося приборкати терористичні та сепаратистські настрої. По-друге, багатство природними ресурсами та сприятливий клімат для сільського господарства та розвитку альтернативних джерел енергії. Нещодавній візит очільника КНР в Сінцзян та зміна керівника регіону на Ма Сінжуя, який раніше відповідав за Гуаньдун, є позитивними сигналами для місцевого бізнесу та населення.

На основі статистичних даних аналітичних матеріалів науковців, журналістських публікацій, спілкуванні з колегами, що відвідували СУАР, автор дійшов висновку, що регіон має позитивні тенденції до розвитку, рівень добробуту домогосподарств в регіоні зростає.

Мета дослідження – проаналізувати сучасний економічний стан СУАР в розрізі пріоритетних напрямків зростання та під впливом ризиків пандемії та санкційної політики Заходу, охарактеризувати економічний профіль регіону в перспективі подальшого стратегічного розвитку, зважаючи на значущість автономного району для уряду країни, його ділової активності та політичної стабільності, а також зростаючого впливу Китаю в Центральній Азії.

Ключові слова: Сінцзян-Уйгурський автономний район, Закон про запобігання примусовій праці уйгурів, економічні санкції, уйгури, Пояс і Шлях, Центральна Азія.

The diplomatic boycott of the Beijing Winter Olympics in February 2022 by a number of countries, including the USA, UK, Canada, and Australia, has given much attention to the Xinjiang Uyghur Autonomous Region (XUAR). Concerns about Uyghur human rights abuses have been voiced by Western politicians since 2009. Economic sanctions imposed by the USA, Canada, and the European Union on companies and individuals has restricted trade, travel, and financial transactions. The biggest ban, “The Uyghur Forced Labor Prevention Act” (the UFPLA), was signed into law by the Biden administration on December 23, 2021 and went into effect on June 21, 2022. According to the UFPLA, all goods produced wholly or in part in Xinjiang are presumed to have been made by forced labor and will be banned for import into the United States. It is too early to analyze the effect of the UFPLA,

but investigation of Ji Siqi and Jacob Fromer from the South China Morning Post (SCMP) and China customs statistics show that Xinjiang exports to the US have grown in the last months despite expectations and have almost returned to the levels of a year ago.

In their article, Siqi and Fromer mentioned that the US customs agency received funding from the US congress under the UFPLA implementation, and they needed time to hire and teach their staff. This could be the reason that Xinjiang exports to the US are going up. Four sectors of commodities were identified by US customs as “high-risk” products: apparel, cotton, tomatoes, and polysilicon (a material used for solar panel production), according to Siqi and Fromer. But China statistics says that apparel and clothing accessories accounted for 15.99% of total exports to the US in August 2022. According to expert forecasts, exports from Xinjiang will continue to grow due to the big demand on its commodities from the EU, the US, and neighboring countries. Buyers will find a way to continue cooperation with Xinjiang producers.

The Chinese government pays a great deal of attention to Xinjiang, also known as China’s gateway to Eurasia, not only because of its geographical location neighboring Central Asia, but because of its economic importance. Over half of all Chinese exports to Central Asia go through Xinjiang.

Chen Quanguo, associated with Uyghurs and other Muslims repressions in Xinjiang, was fired from his position of head of the XUAR. Ma Xingrui, the former governor of the prosperous Guangdong province and one of the top Chinese scientists, took this post at the end of 2021 with the task of implementing the 14th five-year plan of the National Economic and Social Development of XUAR. The first in the past eight years, Xi Jinping’s visit to Xinjiang in July 2022 meant that the Chinese leader had serious expectations for further development of the largest province-level administrative region.

China’s “Great Western Development Strategy” (西部大开发) or “Go West” strategy, a \$1 trillion development plan, aims to narrow the economic gap between

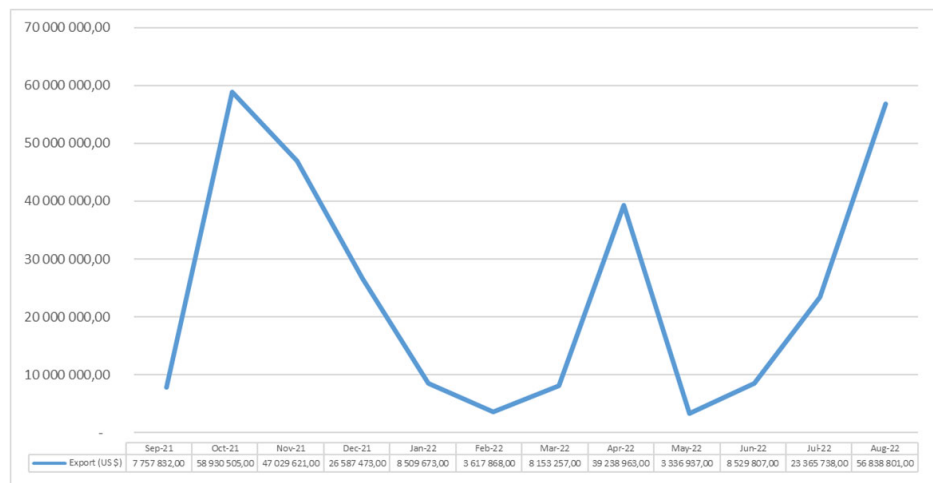


Figure 1. Xinjiang export to the USA (US\$)

Source: Chinese Customs

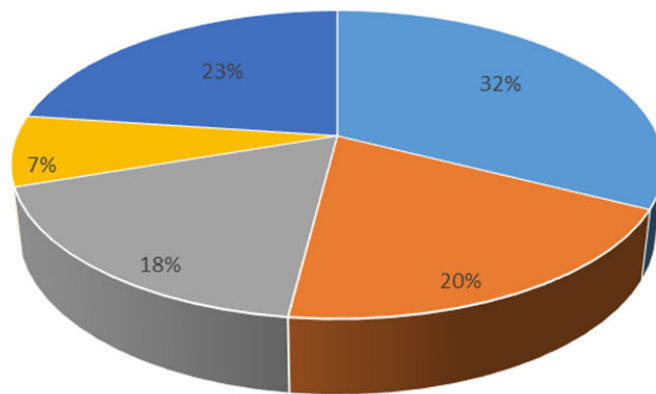


Figure 2. Xinjiang export to the US in August 2022 (US\$)

Source: China Customs

the less developed West and advanced East coast, was launched in 2000. Xinjiang is in a strategic geographical location for the Belt and Road Initiative (BRI) project's success, as it connects China with the countries in Central Asia and the Middle East. Four of the six major BRI land routes, including the China-Pakistan Economic Corridor (CPEC), run through Xinjiang. A significant amount of funding has been injected to develop Kashgar, which is now a special economic zone.

Xinjiang, as a big traffic hub for China-Europe freight trains (China-Europe China Railway Express (CR Express)), has undertaken a large amount of cargo business. In the first eight months of 2022, more than 8,700 China-Europe freight trains traveled through the Alataw Pass and Horgos ports, major land ports in Xinjiang that border Kazakhstan, boosting foreign trade [Xinhua]. This number could be larger, but several lockdowns completely blocked the operations of the main ports for some time. A new expressway passage 300 kilometers long that links Northwest XUAR opened to traffic early September 2022. It facilitates the travel of the residents and tourists and, as a result, has a positive impact on the local economy. It is the third expressway connecting Xinjiang with places outside of the region. So far, the mileage of expressways in Xinjiang has exceeded 7,500 km [Xinhua].

Another traffic hub, Freight Train Logistics Center, in Urumqi, was completed in May 2016. This allows goods from different parts of China to gather at Urumqi and leave China by train through Korgas Port or Alashankou Port. As of May 2020, the CR express cargo trains departing from Urumqi run on 21 lines, covering 23 Asian and European countries and regions [China Briefing]. Ukrainian cargo was also delivered to Kyiv and Odessa by CR Express before Russia's invasion of Ukraine on February 24, 2022. Now this service is temporary closed.

As an important part of the "Go West" strategy, the Chinese government focused on improving transportation in XUAR. According to recent statistics from January to August 2022, the region has invested more than 51.8 billion Yuan (about \$7.5 billion USD) in this sector, 1.15 times that of the same period in 2021 [Xinhua].

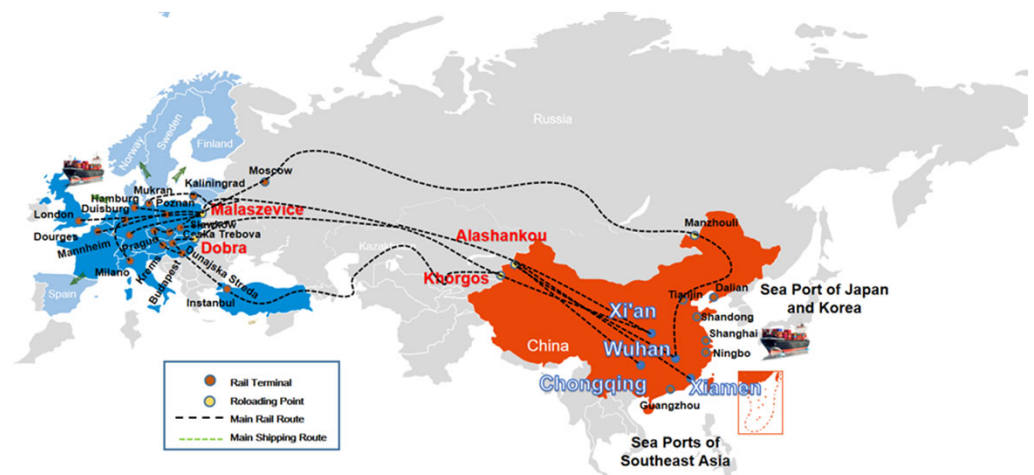


Figure 3. CR Express railway transportation

Source: Beijing Trans Eurasia International Logistics

XUAR achieved positive GDP growth last decade. The regional GDP in 2021 reached 1598.365 billion Yuan, an increase of 7.0% over the previous year. The GDP of agricultural Southern Xinjiang and industrial Northern Xinjiang accounted for 30.1% and 69.9% of the region, respectively. In 2021, 477 400 new jobs were created in cities and towns, up 3.5% over the previous year. 224,000 unemployed people in urban areas were re-employed, 44,800 people with employment difficulties were employed throughout the year, and 3,174,000 people were transferred from rural areas for employment throughout the year [天山网].

In 2021, despite COVID-19, the total import and export of goods was \$24.298 billion, an increase of 13.7% over the previous year (exports of 19.712 billion

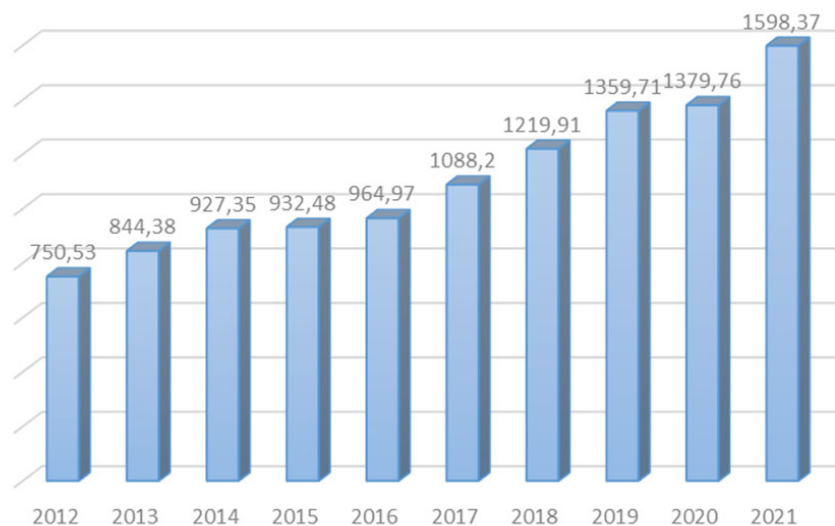


Figure 4. GDP of XUAR (in billion yuan)

Source: National Bureau of Statistics of China

USD, an increase of 24.5% and imports of \$4.587 billion, a decrease of 17.3%). XUAR includes 176 trading partner countries and regions. The top partners were from Kazakhstan (\$10.535 billion in trade, down 3.6% over the previous year), Kyrgyzstan (\$5.465 billion, an increase of 272.1%); Tajikistan (\$981 million, an increase of 63.8%). Trade with Russia and the US accounted for the negative dynamic. The trade balance with Russia was \$858 million (a decrease of 51.0%); and trade with the US was \$372 million (a decrease of 61.3%). Unlike coastal provinces, Xinjiang's economy does not heavily rely on exports, which accounted for just 6.8% of the province's GDP in the first half of 2021.

The leading industries in 2020 were production and supply of electric power and heat power with 20.3% being extraction of petroleum and natural gas (18.2%), and related industries accounted for about half of the gross industrial output and depended more on capital than on labor force.

A portion of Xinjiang's economy is agrarian, and accounted for 14% of its GDP in 2020. This territory is centered in the South where the Uyghur people mostly live. Xinjiang's sugar beet and fruit are famous among local consumers and used for export (including the Yili apple, Korla pear, seedless white grape, and Hami melon). The government in its 14th five-year plan for XUAR set a 6% strong GDP target and focused on the importance of manufacturing with well-paid positions and fostering industries that create jobs. Human-rights groups decry forced labor in textile factories, but this accounted for only 2.3% of Xinjiang's industrial output in 2020. The Chinese government announced an active digitalization of the textile industry in order to increase productivity. According to the National statistics, in 2021, the textile industry increased by 19.4%.

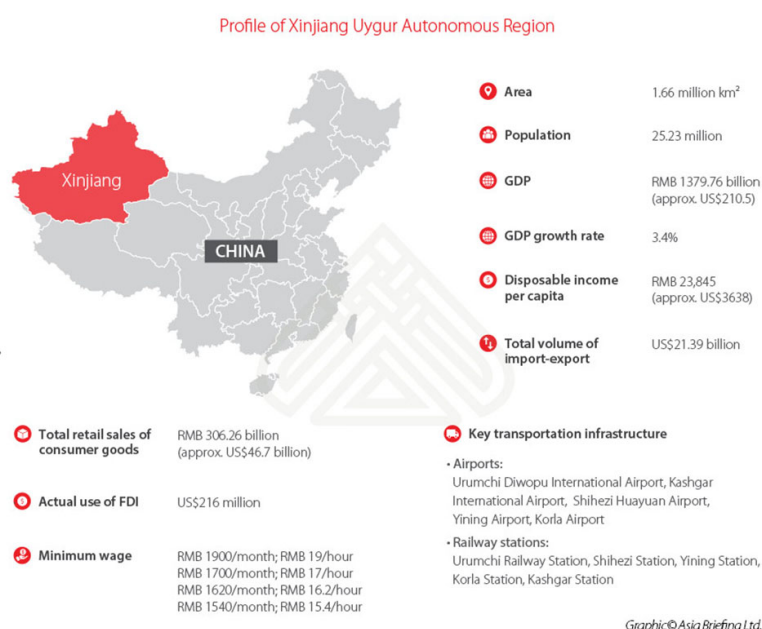


Figure 5. Profile of Xinjiang Uygur Autonomous Region, 2020

Source: China Briefing

The government plans to develop innovation-driven strategies to boost production in Xinjiang by building seven industrial parks, three industrial zones, and a trading hub in Urumqi. Employment in Xinjiang's textile industry has grown from about 400,000 in 2017 to nearly a million in 2022 [NDRC].

XUAR is the largest growing source of cotton production in China. In the 2020-2021 season, the total cotton output in Xinjiang reached 5.95 million tons, accounting for 87.3% of the entire cotton output in China [CCTA]. The cotton industry was a primary target for forced labor investigations in XUAR. Numerous reports by Western analytical centers and journalists show that Xinjiang cotton might be entering deeply into transnational supply chains. Around 1 in 5 apparel items made worldwide likely contain Xinjiang cotton, so the UFPLA would negatively impact not only the Chinese cotton-ginning mills, but farmers, apparel producers, and final consumers throughout the world. After H&M officially announced it would stop using cotton from Xinjiang in early 2021, public attention was again focused on this province. H&M lost a big market share in China after provoking a large media scandal. Now it is working hard to recover sales in the Chinese market, but it is still 41% lower than its previous level [Bloomberg].

The cotton mills are experiencing unsold cotton stocks due to the UFPLA. Xinjiang cotton was always the most expensive in the world because of its high quality. This season, cotton-ginning mills in Xinjiang have dropped the price in order to attempt to sell their massive stockpiles. Actually, Xinjiang does not typically export much raw cotton or yarn overseas, but provides it locally or to other provinces for cloth, garment or other textile factories. This season, cotton-processing plants and apparel producers felt the high risk of cooperation with Xinjiang cotton mills, so the Chinese government made a deal with local traders to buy the big number of cotton stocks.

The UFPLA obviously puts the future development of the Xinjiang economy in uncertainty. Even importers can ask for companies to prove that garments were not made with forced labor, which is a virtually impossible process. China has sent an important signal that it is willing to address forced labor concerns through international trade dispute mechanisms [FCDO].

Xinjiang is also one of China's major sheep farming areas and fine-wool production base. The region is rich in resources like oil, natural gas, and coal, which account for 30 percent, 34 percent, and 40 percent of the country's total resources, respectively. Xinjiang has 142 types of mineral resources, including 33 kinds of metallic minerals, 60 kinds of non-metallic minerals and 6 kinds of energy minerals. The coal reserves of the region are about at 2.2 trillion tons, which correspond to 40% of the total coal reserves in the country. The region's reserves of beryllium and mica are the highest in China. Metallurgy processing is one of the most important industries in Xinjiang, supporting by the government.

The alternative energy sector is also showing promising growth in Xinjiang. In 2020, hydropower, wind power, solar power, and other renewable energy accounted for 19.8% of total energy production there.

BRI brought huge opportunities for economic development of the XUAR. Foreign investors were attracted by Xinjiang's geographic advantages, resources, and supportive policies. The contractual value of foreign direct investment (FDI) in 2021 was 542 million USD, an increase of 20.0% over the previous year, and the actual utilization of foreign direct investment was \$237 million, an increase

of 9.5%. The annual investment in high-tech industries was 31.643 billion Yuan, which was up 23.4% over the previous year.

Hong Kong remains a higher foreign direct investment (FDI) position in XUAR, followed by Kazakhstan and the USA. FDIs are spread across different sectors. The top five industries that attract the most foreign investment are manufacturing, mining, leasing and business services, software and information technology, and finance. The agricultural industry also performs well in getting foreign investment.

Until the end of 2019, Xinjiang had attracted more than 1.8 million market entities, including 359,000 enterprises from worldwide and other provinces. The Fortune 500 companies that do business in Xinjiang include: ExxonMobil, Coca Cola, GE, Ford Motor, Dell, Hilton, German chemical giant BASF, Volkswagen, China's real estate conglomerate Wanda Group, and many others. At the end of 2021, Tesla opened a dealership office in Urumqi, which was the first Tesla center in Xinjiang [CNBC], and a good sign for foreign investors. However, due to the UFPLA and China's zero-COVID policy, the situation could change in the negative direction.

The COVID-19 pandemic involved and continues to involve numerous lockdowns, which push foreign investments outside of China. This trend will continue if China doesn't relax its zero-COVID policy [European Union Chamber of Commerce in China].

Tourism remains a key industry driving economic growth in Xinjiang. In Chapter 6 of the 14th five-year plan, the government fixed further development of the regional tourism to the modern service industry.

Due to COVID-19, Xinjiang's tourism revenue in 2020 fell by 73% from its 2019 level. However, the number of domestic tourists that visited Xinjiang in 2021 was 190.567 million, an increase of 20.5% over the previous year and the domestic tourism revenue was 141.569 billion Yuan (42.7% over the previous year).

The Chinese government actively promotes XUAR to make it a hot tourist destination. This summer, the booming tourism in Xinjiang even provoked a serious traffic jam 100 km long on the Duku highway. Revenue from tourism reached \$2.5 billion in June 2022. Another lockdown in September hindered the positive trend, though.

Nataliya Lukyanova, a Ukrainian citizen who temporarily lives and works in Shanghai, was the lucky visitor of Xinjiang last August. During the conversation, Natalya kindly shared her positive impressions from the short visit to Kashgar, Urumqi, Pamir plateau, and the Kunlun Mountains. She reported that the people of Xinjiang, mostly Uyghurs, were glad to speak with a foreigner, and asked basic questions. Xinjiang is a Muslim region with Islamic cultural and traditional specifics such as: mosques, Muslim music, clothing, and Uyghur language signs. The region is safe for travelers, as the government has significantly strengthened its control over Xinjiang in response to the threat of terrorism. Nataliya mentioned that compared to Shanghai, this area is much less developed, but not economically backward.

Chinese influence in Central Asia has strengthened as Russia has lost face after its invasion of Ukraine. Now China is not only the main trade partner and investor in that region, but also the geopolitical leader there. Xinjiang will play a more important role as a neighboring area becoming a factor in Chinese policy in Central Asia, and its prosperity and stability will become a key priority for the government.

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