

Xinjiang and the Great Islamic Circle: The Impact of Transnational Forces on Chinese Regional Economic Planning*

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Before economic reform and political liberalization swept the socialist world, leading to disintegration of multinational states such as the Soviet Union and Yugoslavia, nation-building in socialist economies was primarily studied in the context of modernization theory. This paradigm placed all developing countries along a continuum from tradition to modernity and attributed their movement along the path to domestic factors, with the central assumption that nation-building, assimilation of minority peoples and industrialization followed a linear path of progress. At the beginning of China's economic reforms Donald McMillen used this framework to explain Xinjiang's relations with Han China.¹ McMillen focused on local elites, primarily Muslim minorities, as modernizers working through Han organizations, promoting Xinjiang's development in co-operation with Beijing. The Great Leap Forward and Cultural Revolution disrupted this process, but in the aftermath of the Cultural Revolution, non-Han cadres purged during the Great Leap Forward for pro-Soviet sympathies and resistance to the centre's assimilationist policies were rehabilitated and reincorporated as part of the integrative process of Party-building. The overall theme of McMillen's study was that Beijing and Xinjiang were moving irreversibly towards national integration, although the analysis was conspicuously silent on the role of minority people not recruited into Han-dominated organizations. He viewed foreign – especially Soviet – influence negatively, as undermining the process of Xinjiang's integration into Han China.²

In the early 1990s, after a decade of Chinese economic reform policies, Xinjiang's integration into the national economy seems more politically nuanced than modernization theory would propose. The reforms throughout China have stimulated autonomous regional linkages with the world economy, suggesting complicated alliances and strategies requiring some modifications to the thesis.

A more recent literature on socialist state–society relations suggests that when confronted with emerging autonomous social groups (that is, civil society) an expanding second economy and transnational economic forces from the world economy, the state is forced to loosen

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1. Donald H. McMillen, "Xinjiang and Wang Enmao: new directions in power, policy and integration?" *The China Quarterly*, No. 99 (September 1984), pp. 569–593.

2. *Ibid.* pp. 590–91.

its control over society.³ This derives from the premise of orthodox liberal theory that the world economy has a liberalizing influence on state–society relations. Orthodox Marxism shares this premise; although phrased differently, the assumption is that capitalist multinational corporations undermine state authority. A national integration framework does not contradict these premises, hence McMillen’s view that foreign influence undermines nation-building.

This study, although accepting that Xinjiang is achieving increased regional autonomy, nevertheless uses a different literature on state–society relations, the literature of state theory. This assumes a strong autonomous state that expands and strengthens its economic role in society as transnational economic linkages intensify.⁴ This centre–locality dynamic provides a useful context in which to understand the Chinese central state’s relationship with Xinjiang (Xinjiang Uighur Autonomous Region, or XUAR).

This article considers centre–local bargaining and, specifically, the shift in Xinjiang’s bargaining position with Beijing during 1989–90 that allowed it to attain priority status in the Eighth Five-Year Plan (1991–95) after a decade of supporting the coastal region’s priority status. A primary assumption is that in the centre–local bargaining process over economic policies and investment decisions, the Xinjiang representatives assert local societal interests in a display of “localism” similar to the pattern of localist behaviour observed in other Chinese provinces. It is also assumed that there are regional interests shared by Han Chinese, many of whom are Muslims, with Muslim minorities in XUAR regarding the region’s position in the national economy and optimal foreign economic strategies. In this sense, Xinjiang’s pursuit of an open door in the “Great Islamic Circle,” despite the name, does not differ substantially from Heilongjiang’s open door to the “Great North-east Asian Circle” to promote the province’s economic development.⁵ The concept of the Great Islamic Circle apparently originated among reformist Han Chinese economists in Xinjiang who proposed to use cross-border Islamic ethnic ties to facilitate Xinjiang’s opening first to Soviet Central Asia and then to the Middle East.⁶

The concept of plan bargaining originated with the Hungarian economist, Janos Kornai, who restricted his analysis to centre–local bargaining over planned output targets. The meaning has expanded to

3. Gail W. Lapidus, “State and society: toward the emergence of civil society in the Soviet Union,” in Seweryn Bialer (ed.), *Politics, Society, and Nationality Inside Gorbachev’s Russia* (Boulder: Westview Press, 1989).

4. Peter B. Evans, “Transnational linkages and the economic role of the State: an analysis of developing and industrialized nations in the post-World War II period,” in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol (eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), pp. 193–94.

5. See my “The economic reforms in northeast China: domestic determinants,” *Asian Survey* (December 1988), pp. 1245–263.

6. Discussion with Hua Di at Stanford University, January 1992.

incorporate other issues subject to centre–local bargaining.⁷ This article seeks to broaden the concept further by suggesting that transnational linkages influence the bargaining process first by pressuring the centre to increase its control over the locality as prelude to further foreign economic penetration, and secondly by providing alternative sources of development assistance to the locality, thereby enhancing its bargaining position and leverage with the centre. These phenomena of a strengthening of the central state's control over the local economy on the one hand and an increase of local economic activity outside state control on the other have been previously studied without reference to foreign influences.⁸ In contrast to McMillen, this article concludes that transnational forces contributed to Xinjiang's closer integration into the Chinese polity.

Framing the analysis in terms of local–centre plan bargaining calls for a methodological comment since it depends on public pronouncements by Beijing and Xinjiang and formal statements by Chinese government representatives during interviews. Few studies have probed the bargaining process itself, that is a step-by-step description of who said what to whom inside the government. For example, James Tong and Michel Oksenberg regret that their analysis cannot capture the informal “human interactions,” although they are quite certain that at meetings between central and provincial officials there is bargaining. The final deal struck between centre and province demonstrates the bargaining that preceded it.⁹ In this study of Xinjiang, bargaining is assumed to have occurred because the centre was not able to impose its preferences on the locality, while the locality had its preferences incorporated into the centre's plan.

Regionalization of China's Foreign Economic Relations

This section examines China's economic relations along its borders, arguing that the coastal strategy had a disintegrative effect on the national economy that led to other regions considering their own strategies.

Zhao Ziyang's coastal strategy, formally adopted in early 1988, intensified further the privileges of the coastal region by giving it

7. The literature on Chinese centre–local bargaining during the economic reforms is extensive, permitting only a few recent works to be cited here: Michel Oksenberg and James Tong, “The evolution of central–provincial fiscal relations in China, 1971–1984: the formal system,” *The China Quarterly*, No. 125 (March 1991), pp. 1–32; James Tong, “Fiscal reform, elite turnover and central–provincial relations in post-Mao China,” *The Australian Journal of Chinese Affairs*, No. 22 (July 1989), pp. 1–28; David M. Lampton, “Chinese politics: the bargaining treadmill,” *Issues & Studies*, Vol. 23, No. 3 (March 1987), pp. 11–41; Kenneth G. Lieberthal and David M. Lampton (eds.) *Bureaucracy, Politics, and Decision-Making in Post-Mao China* (Berkeley: University of California Press, 1992).

8. Vivienne Shue, *The Reach of the State: Sketches of the Chinese Body Politic* (Stanford: Stanford University Press, 1988).

9. Oksenberg and Tong, “The evolution of central–provincial fiscal relations,” pp. 2–3.

investment priority and promoting its further integration into the Asia-Pacific economic circle in a Newly-Industrialized Country (NIC) pattern of outward, export-oriented development. Zhao recognized that the resulting economic imbalance between the inland and coastal regions would produce strains. One was pricing, as the coastal region hovered between world market prices and the subsidized prices of China's domestic economy. Zhao declared in the early 1980s that Xinjiang and the north-west region would have to endure the widening coastal-interior gap. Investment for Xinjiang's development would not be available until the 1990s at the earliest,¹⁰ and more probably not until the early 21st century when Beijing would need Xinjiang oil.

The integration of the coastal region with the Asia-Pacific political economy in a "flying geese pattern,"¹¹ was part of an overall plan for foreign economic relations, China's "Great International Circles" (*guoji daxunhuan*) strategy, also referred to as the "Great Circulation" strategy.¹² The original plan was for the coastal region's industries to have "both ends towards the outside" (*liangtou zaiwai*), that is to import raw materials and energy from the world market to use in the production process and to export the finished products, thereby not placing pressure on scarce domestic energy resources. Zhao called on the coastal regions not to take advantage of the inland areas by obtaining raw materials at subsidized prices for factories selling goods at world prices. He also warned the coast not to compete with the interior for raw materials and domestic markets.¹³

Other regional economic circles emerged in the 1980s as a defensive response to the coastal strategy. Chinese economists named these the Great North-east Asian Circle and the Great Islamic Circle. An

10. Quoted in Dali Yang, "Patterns of China's regional development strategy," *The China Quarterly*, No. 122 (June 1990), p. 245.

11. The flying geese model of industrial development, first discussed in the 1930s by Kaname Akamatsu, is a model of regional co-operative economic development vertically structured through which the industrial product cycle passes. Japan heads the formation, followed by a second tier of East Asian NICs and a third tier of developing countries pursuing export-led growth. See Bruce Cumings, "The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences," in Frederic Deyo (ed.), *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987). For Chinese criticism of the model, see Xi Fang, "Dui 'dongya jingji tuan' de jidian kanfa" ("Several views on the 'East Asian Economic Circle'"), *Shijie jingji* (*World Economics*), No. 2 (1989), pp. 49–53. Although the term East Asian Economic Circle is sometimes used interchangeably with Asia-Pacific Economic Circle, the latter includes the U.S., Canada and Australia and does not imply the flying geese model.

12. Christopher Howe, "China, Japan and economic interdependence in the Asia Pacific Region," *The China Quarterly*, No. 124 (December 1990), pp. 688–89. For a thorough discussion of the Great International Circles see Dali L. Yang, "China adjusts to the world economy: the political economy of China's coastal development strategy," *Pacific Affairs*, Vol. 64, No. 1 (Spring 1991), pp. 42–64, and Fuh-Wen Tzeng, "The political economy of China's coastal development strategy," *Asian Survey*, Vol. 31, No. 3 (March 1991), pp. 270–284.

13. "Zhao on Coastal Areas' Development Strategy," *Beijing Review*, 8–14 February 1988, p. 23.

economic circle is a regional economic bloc linking a border region with contiguous states for the purpose of trade and economic development. The Great North-east Asian Circle encompasses Soviet Far East–Japan–Korea trade with Heilongjiang, Jilin and Liaoning. The Great Islamic Circle links Xinjiang primarily with Soviet Central Asia, although its name implies a pathway to the Middle East. Other economic blocs along China's borders are in a more embryonic stage, such as the eventual Fujian–Guangdong–Hong Kong–Taiwan integration into a South China Economic Circle with links to Singapore. Trade with Nepal on the Tibetan border is permitted despite the fact that a Tibetan resistance movement is based in Nepal. Yunnan trades with Burma and Guangxi with Vietnam, both border areas with a history of hostility.

The Political Economy of Historical Centre–Local Differences over Xinjiang

The degree to which Xinjiang is perceived as acting autonomously depends on the focus and time of the analysis. In the 1940s, Owen Lattimore portrayed Xinjiang as holding a pivotal position, a “new centre of gravity” in Asia between the great power politics of China, the Soviet Union, India and the Moslem Middle East.¹⁴ Historically, Lattimore noted, Xinjiang was a key area when Chinese foreign trade was focused on the land frontier. Its importance faded during the 19th century, a time when China was dominated by foreign imperialists who directed her trade through the coastal treaty ports.¹⁵ Allen Whiting shifted the focus to Xinjiang's pawn status in great power politics, with trade simply as an instrument of Moscow's and Chongqing's foreign policies.¹⁶ John Garver portrays Xinjiang as both pawn and pivot in Sino-Soviet relations during the 1930s and 1940s.¹⁷

During the era of Republican control over Xinjiang, Han governors recognized the region's vast exploitable mineral resources and systematically bled it through economic and fiscal policies. Rising Turkic nationalism and Islamic identity among the Muslim peoples of Xinjiang left a continual threat of rebellion. Soviet influence through Soviet Central Asia was pervasive. According to Andrew Forbes, at that time Han governors forbade construction of an industrial base in Xinjiang for fear it would breed an organized and rebellious working class.¹⁸ In response, and despite efforts by Han officials to stop it,

14. Owen Lattimore, *Pivot of Asia: Sinkiang and the Inner Asian Frontiers of China and Russia* (Boston: Little, Brown and Co., 1950), p. 3.

15. *Ibid.* p. 5.

16. Allen S. Whiting, *Sinkiang: Pawn or Pivot?* (Lansing, MI: Michigan State University Press, 1958).

17. John W. Garver, *Chinese–Soviet Relations, 1937–1945: The Diplomacy of Chinese Nationalism* (Oxford: Oxford University Press, 1988).

18. Andrew Forbes, *Warlords and Muslims in Chinese Central Asia: A Political History of Republican Sinkiang 1911–1949* (Cambridge: Cambridge University Press, 1986), pp. 28–32.

Uighur and Kazakh workers would annually migrate to Soviet Central Asia for higher wages.

In 1933 the Soviet Union intervened in support of the Chinese warlord Sheng Shicai who allowed Xinjiang to come under Soviet influence. Soviet motivation at that time was to prevent the Japanese military from establishing a presence in the Central Asian region in search of oil. In the 1930s, the Soviet government assisted in constructing hospitals, schools, libraries, factories, power plants and roads, and in geological explorations. Although the Dushanzi oilfield in the Junggar basin was discovered in 1897, it was not developed until the Soviets brought in the necessary technology and personnel in the 1930s. In 1942 the Soviets withdrew when Sheng Shicai suddenly threw his allegiance to the Nationalists. They capped and handed over to provincial management 25 wells, but took their oil-field equipment with them.¹⁹

When the PRC established Chinese Communist Party control of Xinjiang in 1949 under Wang Zhen's First Army Group of the First Field Army, Han Chinese comprised only 5 per cent of the population. In recognition of the Muslim majority, Xinjiang in 1955 was granted regional autonomy and nominal leadership was given to minority cadres.²⁰

In the early 1950s, numerous Sino-Soviet joint-stock companies engaged in exploration, extraction and processing of minerals and oil, and other industrial projects. A rail project linking Soviet Central Asia and Xinjiang was started during this time but discontinued in 1961. Soviet assistance was responsible for a six-fold increase in industrial output in Xinjiang from 1952 to 1957.²¹ The joint-stock companies were liquidated in the late 1950s as the Sino-Soviet dispute escalated.

Before the Cultural Revolution, Shanghai's rustication programme dispatched thousands of Shanghai youths to Xinjiang to develop the region. Many worked in the Yumen oilfield and on other large projects. The Shanghai–Xinjiang link became institutionalized, with the Xinjiang government interested in recruiting more educated and skilled Hans who entered Xinjiang's government, industry and the Party, and Shanghai seeking access to Xinjiang's oil resources,²² until the 1970s when Shanghai shifted its dispatch of youth to other regions. Han Chinese today comprise 40 per cent of Xinjiang's population of 14 million.

19. Lattimore, *Pivot of Asia*, p. 279.

20. McMillen, "Xinjiang and Weng Enmao," p. 570.

21. Gozhakhmet S. Sadvakasov, "Soviet–Chinese relations in Central Asia: the present state, problems, and prospects," in *Peace, Security, and Cooperation in the Asian–Pacific Region* (Center for International Security and Arms Control, Stanford University, January 1989), pp. 65–66.

22. Lynn T. White III, "The road to Urumchi: approved institutions in search of attainable goals during pre-1968 rustication from Shanghai," *The China Quarterly*, No. 79 (September 1979), p. 487.

This Han presence raised ethnic tensions during the Great Leap Forward and Cultural Revolution, encouraging large-scale migration to Soviet Central Asia. In response to the Great Leap Forward, 60,000 residents of Xinjiang sought political asylum in the Soviet Union in 1962–63. The PRC then sealed the border, but the Cultural Revolution had the same effect later in the decade.

During the 1960s and 1970s, Xinjiang received no officially recognized assistance from the Soviet Union. The industrial strategy for China at that time was to invest in the “Third Front,” a self-reliant industrial base in the strategically secure western region that spanned Gansu, Ningxia, Qinghai, Sichuan, Yunnan, Guizhou, and parts of Shaanxi, Henan, Hubei and Hunan. Unfortunately for Xinjiang, it was not included because of its proximity to the Soviet Union.

The Impact of Regionalization on Xinjiang and the Struggle over Resources

The political economy of resource exploitation. Xinjiang’s link with Soviet Central Asia and the Middle East in the Great Islamic Circle, although within the pattern of forming regional economic blocs along the Chinese border, raises questions not present in other border areas. Xinjiang’s political–economic integration into Han China has been more problematic, with the capacity of the central state to direct events at the lower level less certain. Nevertheless, Beijing’s policies towards Muslim minorities since the 1978 Third Plenum of the 11th Central Committee have permitted increased cross-border linkages. In 1980, the Xinjiang provincial government liberalized its policies towards Islam, reinstating the Xinjiang Islamic Association. Muslim minorities were encouraged to establish friendly contact with Muslims outside the country.²³

Xinjiang appears to have two potential roles in China’s Open Door policy: as supplier of raw materials to the coastal region for the latter to export or use in its industrialization, and as the nexus of a Silk Road economy in the Great Islamic Circle. The former requires strong linkages to the domestic economy, as the latter does to the Central Asian economy – a “double opening” (domestic and foreign) for Xinjiang. The ancient Central Asian Silk Road economy, disrupted by Soviet and Chinese nation-building efforts during the 20th century, is now reviving after the decentralization of China and disintegration of the former Soviet Union.²⁴

Most studies of the regionalization of the Chinese economy focus on the coastal strategy to the exclusion of other regions such as the

23. McMillen, “Xinjiang and Weng Enmao,” p. 577.

24. On Russian disruption of the Central Asian economy, see Ian Murray Matley, “Industrialization,” in Edward Allworth (ed.), *Central Asia: 120 Years of Russian Rule* (Durham: Duke University Press, 1989), pp. 321–330.

north-west. Dali Yang argues that Beijing economists have not yet devised a “coherent development strategy for the western region,”²⁵ but this article finds Xinjiang strategies clearly emerging from the region itself. This was apparent at the National People’s Congress in the spring of 1988 where Xinjiang representatives expressed their fears that Zhao’s strategy meant neglect of the inland areas. They argued that these areas needed a corresponding strategy with tighter linkages between the west and the coastal region.²⁶

As Xinjiang pursues an Open Door policy, a major pressure on the Xinjiang–Beijing relationship comes from the international oil industry lobbying Beijing to open up Xinjiang to joint exploration. Xinjiang contains three large promising sedimentary basins, the Junggar, Turpan and Tarim Basins. Although Xinjiang at present produces only 4 per cent of total national petroleum output (6.4 million tons in 1989), it may contain one-third of China’s proved oil resources. Chinese geologists claim Tarim Basin reserves may be as high as 74 billion barrels of oil and 282 tcf of gas.²⁷ Other estimates project recoverable oil reserves in Xinjiang at 14 billion barrels by the year 2000.²⁸ Without a major new producing field, China may become a net petroleum importer by the mid-1990s as Daqing production declines and domestic demand rises. This helps to explain Beijing’s policy reversal on foreign oil exploration in Xinjiang.

Xinjiang also possesses 115 of the 147 kinds of minerals discovered in China, although development of these for domestic and international markets may not be economically feasible because of poor infrastructure and high capital investment requirements.²⁹ Xinjiang’s mineral wealth, and Beijing’s need for it, leads the Chinese central authorities to consider how best to integrate the region more fully into the national economy. This poses new issues in a relationship strained by ethnic conflict throughout the 20th century.

Han Chinese–Muslim minority ethnic tension in Xinjiang is generally well known to outside observers, but this is intertwined with the less well-known struggle for Xinjiang’s natural resources. The ethnic rioting outside Kashgar, Xinjiang in April 1990, whose suppression by the PLA caused many deaths, was reportedly led by Islamic separatists encouraged by similar activists in Soviet Central

25. Dali Yang, “Patterns of China’s regional development strategy,” p. 245.

26. Han Baocheng, “Importance attached to coastal development,” *Beijing Review*, 25 April–1 May 1988, p. 21.

27. “China eyes challenges in remote Tarim Basin,” *Oil & Gas Journal*, 22 January 1990, pp. 23–24; “China to hike Tarim Basin exploration program,” *Oil & Gas Journal*, 24 July 1989, pp. 18–19.

28. Kim Woodard and Bruce Vernor, “Petroleum exploration update: China’s strategy into the ’90s,” *East Asian Executive Reports*, April 1989, p. 12.

29. Allen L. Clark, James P. Dorian, James M. Otto, Charles J. Johnson, Laura G. Bozich, Chen Songguan, Zhao Jian, Dong Yongquan and Dai Jianguo, “Resource assessment and economic analysis: a study of mineral resources in the Altay Mountains area, Xinjiang, China,” *Materials and Society*, Vol. 13, No. 1 (1989), pp. 77–129.

Asia.³⁰ A May 1990 broadcast on Urumqi television indicated that resource issues were also a cause of ethnic tension, reminding viewers that Xinjiang's "... resources are owned by the state and the people throughout the country, not by a certain region nor by a certain nationality."³¹ The broadcast contained a further reminder that Beijing had provided the region with financial subsidies totalling 24.6 billion *yuan* between 1953 and 1988, and had invested heavily in Xinjiang's resources.³²

The widespread perception in Xinjiang that Beijing milks Xinjiang's oil, coal, aluminium, wool and cotton (especially for the coastal region) without adequate compensation is an important cause of local resistance to Beijing's economic policies. These delicate centre-local relations came under new pressures during the late 1980s. The intensification of the region's transnational economic linkages, Soviet involvement in Xinjiang and the international oil industry's interest in developing the region compelled the central state to expand and strengthen its economic role in Xinjiang.

In addition to Xinjiang's raw material supply to other regions, it has officially been a net recipient of government subsidies, receiving over 50 per cent of its expenditures through central subsidies. This provides a justification for it having less political autonomy from the central government.³³ The central government's policies project the dependency pattern of an "internal colony," precluding a more autonomous development model for Xinjiang. The historical pattern, then, is that Beijing both subsidized and exploited Xinjiang, with the Soviet Union becoming an alternative source for employment opportunities and development assistance when Beijing's policies were untenable.

Energy output. Before 1949, Xinjiang had relied primarily on crop by-products for its own fuel, along with some small-scale coal mining. The cumulative production of crude oil from 1942–49 was only 11,500 tons, requiring the province to rely on imported petroleum products. Petroleum development focused on Dushanzi until 1955, when the Karamay oil field was discovered. By 1960, Karamay had gone into production, and its output of 1.65 million tons provided approximately one-third of total national production at that time.

In 1983, the Xinjiang Science and Technology Information Research Institute claimed in its publication, *Xinjiang Energy*, that Xinjiang's petroleum development was not benefiting Xinjiang. By

30. Robert Delfs, "Distant smoke," *Far Eastern Economic Review*, 19 April 1990, pp. 10–11.

31. "Exploit Xinjiang's resources to benefit the people of all nationalities," Urumqi Xinjiang Television Network, 22 May 1990, in *Foreign Broadcast Information Service—China* (hereafter FBIS-CHI) 90–106, 1 June 1990, p. 53.

32. *Ibid.*

33. Peter Ferdinand, "The economic and financial dimension," in David S. G. Goodman (ed.), *China's Regional Development* (London: Routledge, 1989), p. 42.

1980, annual production had reached 4 million tons with a total refining capacity of 2.8–3 million tons, although only 1.4–1.5 million tons were actually processed in Xinjiang.³⁴ The refineries were operating at half capacity.

On the production side, Xinjiang annually shipped out 1.8 million tons of crude with shipments expanding, while it imported petroleum products—100,000 tons of gasoline from Daqing in 1980, for example. This was transported by rail since there are no product pipelines in China for civilian use, and represented a 200 *yuan* loss per ton of fuel, altogether 20 million *yuan* loss per year.³⁵ This was according to the state plan and the central ministries' priorities. If the province had an expanded refining capacity, it would ship out less crude and import less product.

The Institute found an additional problem of rapid depletion. After 30 years of petroleum production, 79.5 per cent of proven reserves had been extracted from Karamay and the ratio of deposits to extraction had decreased from 57:1 in the 1950s to 15:1. With well-head pressure continually dropping, production was decreasing 300,000 tons per year. Without an important breakthrough, Xinjiang production would not exceed 3.5–4.5 million tons per year during the Sixth Five-Year Plan.³⁶ Geological exploration needed to be expanded, but the seismic survey equipment was backward, the efficiency level was low, the data were not accurate, and drilling technology was not up to world standards. The associated gas was being flared at the well-head, natural gas that could have supplied a 300,000-ton synthetic ammonia fertilizer plant for the region. The Institute argued that the region could construct a chemical industry if it had the investment funds, it could have more value-added production if it expanded petroleum processing, and it could create more employment opportunities if it used Xinjiang's petroleum resources differently.

On the consumption side, the Institute raised issues of energy equity as it made a comparison of per capita consumption between Xinjiang and Shanghai. In 1979, a Shanghainese consumed 700 kilos of standard fuel equivalent per year in daily living (including the energy component in clothing, food, housing and consumer goods) and paid 468 *yuan* for it. In Xinjiang, a poor person consumed 242 kilos and paid 192 *yuan*, and a wealthy person consumed 361 and paid 298 *yuan*.³⁷ The implication was that Xinjiang was forgoing consumption to support the resource-deficient eastern region.

On the issue of how much Xinjiang should consume, the World Bank in a 1984 report on the Karamay petroleum project took the side

34. Xinjiang kexue jishu qingbao yanjiusuo (Xinjiang Science and Technology Information Research Institute), *Xinjiang nengyuan* (Xinjiang Energy) (Xinjiang renmin chubanshe, 1983), pp. 159–160.

35. *Ibid.*

36. *Ibid.* p. 161.

37. *Ibid.* p. 207.

of Beijing, perhaps unwittingly. Its report assumed that “as local consumption is not likely to grow significantly, most of the incremental production from Karamay would need to be transported out of Urumqi by train, at least over the medium term.”³⁸

By 1989, Xinjiang consumption levels were not much higher. The average Xinjiang person consumed 337 kilos of standard fuel equivalent annually, including 385 kilos of coal, 3.71 of LPG, 0.34 of kerosene, and 18 KWh.³⁹ A comment by the State Planning Commission’s Department of Resource Saving and Comprehensive Utilization illustrates the size of regional disparities in energy use. The Department in 1990 claimed that the national average electricity consumption was 600 kW per person, with 1,000 kW per person in the coastal area, and 200–300 in the western region. These figures do not convey information on daily living since they combined household and industrial consumption, but they do indicate regional differences.⁴⁰

Coastal–interior consumption differentials were compounded as the terms of Xinjiang’s domestic trade worsened in the 1980s. Its energy shipments to other provinces in 1989 included 2 million tons of coal, 2.11 million tons of crude oil, 0.44 million tons of gasoline and 0.63 million tons of diesel.⁴¹ Despite the revenues earned from these resources, according to Xinjiang economists domestic trade had several “contradictions and problems” in 1989. All the western provinces that sold their raw materials at state-planned prices and purchased industrial consumer goods from the coastal provinces at rising market prices experienced similar conditions. The price differences represent billions of *yuan* losses per province in the western region, much larger than their state subsidies from Beijing.⁴² This regional trade imbalance was compounded by the nation-wide recession in 1989 that caused Xinjiang’s markets to slump. Enterprise profits dropped 57.8 per cent while losses increased by 39.1 per cent compared to 1988.⁴³ Total value of foreign trade in 1989, on the other hand, was \$486.3 million, a 19.3 per cent increase over 1988.⁴⁴ Imports accounted for \$125.4 million and exports for \$360.9 million, leaving Xinjiang with a favourable balance of trade in foreign transactions. Thus, according to one Xinjiang economist, any expan-

38. The World Bank, *Staff Appraisal Report. China. Karamay Petroleum Project* (Report No. 4902-CHA, 7 May 1984), p. 31.

39. Xinjiang weiwu zizhiqu tongji jubian, *Xinjiang tongji nianjian 1990* (*Xinjiang Statistical Yearbook 1990*) (Zhongguo tongji chubanshe, 1990) p. 437.

40. Interviews with the State Planning Commission in Beijing were conducted during the author’s participation in a study group organized by the National Committee on U.S.–China Relations, October 1990.

41. *Xinjiang Statistical Yearbook 1990*, pp. 458–59.

42. Gu Zongzhang, “Economic improvement and rectification and regional co-ordinated economic development,” *Renmin ribao*, 11 June 1990, p. 6, in FBIS-CHI-90-119, 20 June 1990, p. 29.

43. *Xinjiang Statistical Yearbook 1990*, p. 16.

44. *Ibid.*

sion of the regional economy in the 1980s was due to foreign markets.⁴⁵

Exports and imports. The worsening terms of domestic trade led Xinjiang economists to raise several issues. While China's concern was to have membership in the global economy through the coastal strategy, they argued, Xinjiang's problem was to gain membership in the *national* economy. Although the co-operation of the western region was necessary for the coastal areas to compete in the Asia-Pacific Circle, the gap between the two had widened. Some Xinjiang analysts argued that this co-operation would lead to increased transfer of investment and technology to Xinjiang to narrow the gap; others thought these expectations unrealistic. The latter group's criticism focused on Guangdong province which, rather than help Xinjiang develop an export market, had dumped its consumer products into Xinjiang, recouping in domestic markets its losses from external trade. This, they argued, was the result of Guangdong's favoured position, and would enlarge rather than narrow the gap between the two regions.⁴⁶

The solution of Xinjiang reformers was for the region to pursue its own Open Door policy, developing an outward-looking economy and trade relations, so that Xinjiang could experience "unified development" in co-ordination with the coastal enterprises, that is, maintain the unity of the national economy. This strategy was developed with sponsorship from CITIC and the Commission for Restructuring the Economy under the State Council as part of their plan for Xinjiang.⁴⁷ Xinjiang's view is that the national government should not abolish the coastal strategy but rather supplement it by extending it inland to Xinjiang. The coastal region should import from the Pacific economic circle, and Xinjiang should export to and import from the Middle East, Eastern Europe and West Asia's Islamic economic circle. Xinjiang analysts further argued that if Urumqi was at the hub of a Silk Road economy and the region's own products were insufficient for foreign trade, it needed a "double opening" with increased integration and co-operation with the coastal region facilitating Xinjiang's export of products from there to the Islamic circle. Even if it were a *xiao tou* (little chief) rather than a *da tou* (big chief), Xinjiang would benefit from its role as trans-shipment centre.⁴⁸

45. Yang Sijing, "Zai gaige kaifang zhong kaituo qianjin de xinjiang jingji" ("In reform and the open door, open up and advance Xinjiang's economy"), *Xinjiang jingji yanjiu* (*Xinjiang Economic Research*), No. 2 (1988), pp. 19–24.

46. Yu Rongchun, "Yanhai diqu jingji fazhan zhanlue yu xinjiang duice" ("The coastal region's development strategy and Xinjiang's countermeasures"), *Xinjiang Economic Research*, No. 1 (1989), pp. 4–13.

47. "USSR-Urumqi rail link to help economy," *South China Morning Post*, 1 April 1989, p. 8, in FBIS-China, 3 April 1989, p. 8.

48. Liu Jiajin, "Luan Xiya diqu jingji jiegou yanbian yu xinjiang de duiwai kaifang" ("Discussion on West Asia's economic structural evolution and Xinjiang's open door policy"), *Xinjiang Economic Research*, No. 5 (1988), p. 47.

According to Wu Cheng, an economist in Xinjiang's Office of Reforming the Economic System, the coastal region's economic development strategy had hit Xinjiang like a "shock wave." Xinjiang was compelled to consider the problems inherent in being a rear guard for the coastal region's involvement in the Great International Circles. As the "national hope" providing resources to the coastal region and also under the "coastal effect," Xinjiang must pursue a "double opening," eastward to the coast and westward to foreign markets. This mission, Wu argued, would give Xinjiang leverage to bargain with Beijing to rethink the interior's requirements for investment and raising the standard of living.⁴⁹

Wu Cheng acknowledged that opinion was divided on whether under the "double opening" Xinjiang had the qualifications to participate in the Great International Circles. Although CITIC and the Commission for Restructuring the Economy had formulated a plan for Xinjiang's opening and development, another reformist organization, the Economic, Technological and Social Development Research Centre of the State Council, took the position that Xinjiang should be primarily engaged in meeting domestic demand and import substitution, and only secondarily in producing for export, which should be the domain of the coastal areas.⁵⁰ This dispute is interesting because it is not a reformist-conservative disagreement but a difference among reformist groups, each championing a different region of the country.

From the view of Xinjiang's Office for Reforming the Economic System, the region had three markets to develop: regional, national and international. The first two were important to enable participation in the third. The development of an outward-looking Xinjiang economy would increase, the Office predicted, as links to the national economy were strengthened.⁵¹

Xinjiang's Open Door to the Great Islamic Circle

Border trade between Xinjiang and Central Asia officially resumed in 1983. By 1989, the total volume of Xinjiang's import and export trade with the Soviet Union reached \$118.5 million. Soviet Central Asia supplied chemicals, electronic goods and mineral fertilizers to Xinjiang, while Xinjiang supplied light industrial goods, foodstuffs and raw materials in return.⁵² In 1989 this trade confined imports and exports to the immediate border regions. Xinjiang was not yet a point

49. Wu Cheng, "Jiangyi yanhai diqu jingji fazhan zhanlue jiqi gei xinjiang dalai de sikao" ("A preliminary discussion on the strategy of economic development in the coastal area and its reflection on Xinjiang"), *Xinjiang shehui kexue* (Xinjiang Social Sciences), No. 5 (1988), pp. 1-2.

50. "Foreign trade development strategy described," *Xinhua*, 19 April 1989, in FBIS-CHI-89-075, 20 April 1989, p. 3.

51. Wu Cheng, "A preliminary discussion," p. 4.

52. Sadvakasov, "Soviet-Chinese relations," p. 61.

for trans-shipment of goods from other provinces to the Soviet Union as Heilongjiang has been since the 1980s.

Border trade was negotiated by the Xinjiang Import–Export Trading Company and V/O VostokXinjiangintorg. Annual trade fairs alternate between Urumqi and Central Asian cities. During a visit to Xinjiang by a delegation led by the Foreign Affairs Minister of Kazakhstan in the autumn of 1987, Xinjiang officials proposed expanding economic co-operation with Central Asia.⁵³ During the course of another set of trade negotiations in October 1987, the Soviet side presented a

... list of enterprises in the XUAR that could be reconstructed with Soviet assistance. The representatives of the XUAR, though pointing to Beijing's competence in addressing such matters, still expressed willingness to start co-operation on 29 industrial and agricultural projects in the form of joint ventures and on a compensation basis.⁵⁴

This refers to the list of enterprises originally constructed in the 1950s by the Soviets which by 1987 were in need of renovation.

The Xinjiang autonomous region has signed a protocol with Turkmenistan for oil and natural gas co-operation. Fifty-one projects (mainly in geology, metallurgy, mining and petroleum) are under discussion with Kazakhstan. Agreements have been signed with Kyrgyzstan and Tadzhikistan for co-operation in seismological research. According to the Chinese side, two-way technical exchange with the (former) Soviet republics is mutually beneficial:

At present, the Soviet republics are more advanced in animal husbandry, farming, mining and the nonferrous metals industry. However, Xinjiang has the advantage in oasis farming, geological prospecting, the petroleum industry and water resources prospecting, as well as in the computer, food and textile industries.⁵⁵

As Xinjiang has expanded the number of trade ports and co-operative projects, interactions across the border have increased. In 1989, approximately 40,000 people were expected to cross the border, many of them visiting relatives.

The rail project linking Druzhba, Soviet Central Asia and Urumqi was part of the plan sponsored by CITIC and the Commission for Restructuring the Economy.⁵⁶ It was made possible by a Soviet loan of \$80 million to China, to be paid back with light industrial goods. It was completed in September 1990 and is expected to carry 10 million tons of freight per year.

53. Mikhail I. Isinailiev, "Opening remarks," *Report on a Trip to the Soviet Union: Second Symposium on Peace, Security and Cooperation in the Asia-Pacific Region*, 21–30 June 1988, p. 29 (trip report by a study group from Stanford University's Center for International Security and Arms Control).

54. Sadvakasov, "Soviet–Chinese relations," p. 62.

55. "Xinjiang, USSR pursue technical co-operation," *Xinhua*, 27 March 1989, in FBIS-China-89-58, 28 March 1989, p. 3.

56. "USSR–Urumqi rail link to help economy," *South China Morning Post*, 1 April 1989, p. 8, in FBIS-China, 3 April 1989, p. 8.

A confluence of purposes supported a rail link. Moscow pursued improved political ties with China as part of an overall strategy to reduce tension on its borders and within the strategic triangle. The reformist organizations in Urumqi and Beijing viewed the railway as a major infrastructural need for the north-west region's economic development. For the Xinjiang Muslim minorities, it is a route to the Great Islamic Circle, for family visits, border trade and trips to Mecca, linking the Muslim peoples of China, the Soviet Union and the Middle East.

Xinjiang's increased contact with Soviet Central Asia, especially Kazakhstan, exposed its people to a model of centre-local resource relations to be emulated in its interactions with Beijing. Prior to the Soviet Union's disintegration, Kazakhstan had disputed Moscow's ownership of the republic's oil fields. Foreign oil companies that sought joint development in the Soviet Union hesitated in the face of nebulous and conflicting resource ownership laws over whether to negotiate with Moscow or with the local government. Chevron waited more than 18 months for what would be the largest American-Soviet joint venture ever, while Kazakhstan debated with Moscow the question of resource ownership and demanded the right to develop the Tenghiz oil field autonomously.⁵⁷ An agreement was finally signed with Chevron during Gorbachev's visit to the United States in June 1990, but the issue of ownership was not resolved until 1991 when Kazakhstan became independent.

Xinjiang's Open Door policy has also led to increased interest in trade with the Mongolian People's Republic. Xinjiang economists believe exporting petroleum products to Mongolia would help develop the downstream petroleum industry in Xinjiang.⁵⁸ With Mongolia's shift to glasnost and perestroika, it was itself undertaking seismological surveys, assisted by an American firm. Oil companies that awaited the results in summer 1990 were Chevron, Shell and British Petroleum.

The Impact of Beijing's Retrenchment Policies on Xinjiang

In September 1988, Beijing issued retrenchment policies recentralizing economic authority to reduce demand, slow down economic growth and inflation, and reassert macroeconomic regulation and control. This was Beijing's response to regionalization of the national economy. The gap between energy demand and production grew particularly severe; industrial growth during the 1980s averaged 14 per cent, while expansion of the energy supply averaged only 4 per cent. The policies were meant to reduce energy demand but they

57. Maria Kielmas, "Who owns what in the USSR?" *Platt's Week*, Vol. 13, No. 17 (30 April 1990), p. 6.

58. Zhang Jinqing, "Qiantan xinjiang dui menggu renmin gongheguo de kaifang" ("Elementary discussion on Xinjiang's open door policy towards the Mongolian People's Republic"), *Xinjiang Economic Research*, No. 3 (1988), p. 61.

failed to prevent the energy crisis of late 1988 and early 1989 that left many state enterprises with only a two-day supply of energy to fuel their boilers.

The nation-wide programme to cut back investment from the centre under the retrenchment policies hit inland China the hardest. With the exception of Tianjin and Fujian, the provinces experiencing the largest cutbacks were in the western region and inland border areas: Heilongjiang, Inner Mongolia, Gansu, Ningxia, Yunnan and Xinjiang. By January 1989 the centre had reduced its investment in fixed assets in Xinjiang by 37.3 per cent compared to the previous year. Other inland provinces experienced more than 50 per cent reductions.⁵⁹ This programme's emphasis was yet another example of the priority given to the coastal area.

Relegation of the western region to the role of raw materials supplier to the coastal region did not please Beijing for reasons of either equity or feasibility. In keeping with the retrenchment's goal of reasserting macroeconomic control, rather than block Xinjiang's increased dependence on Soviet trade and technology, in 1988 Beijing had also granted to other provinces the right to trade with the Soviet Union after the signing of the "Agreement on Establishing and Developing Economic and Trade Links Between the Provinces, Regions and Municipalities of China and the Union Republics, Ministries, Competent Departments, Integrated Corporations and Enterprises of the Soviet Union."⁶⁰ This opened a third level of trade, called regional trade, in addition to government-to-government and border trade. Even Liaoning and Guangdong provinces, which have extensive trade ties with the Asia-Pacific region and are considered part of the coastal region, pursued trade relations with the Soviets.

This expansion of Soviet trade to all China's provinces marked the end of a very brief period when China's Open Door policy was clearly divided between border regions integrating with the Soviet Union, and the coastal region integrating with the Asia-Pacific economies. It was important to Beijing to further economic integration of the country as a whole, as the domestic economy, even without foreign influence, tended towards regionalization during the 1980s. For the north-west to become part of the Great Islamic Circle while the north-east joined the Great North-east Asian Circle and the coastal areas entered the Asia-Pacific Economic Circle with East Asian NICs and Japan, could only undermine the unity of national markets, with further regionalization, "economic warlordism" and disintegration of the national economy.

Expanding trade relations, however, has proved easier than rectifying regional imbalances and integrating the domestic economy.

59. Beijing CEI Database, in FBIS-CHI-89, 24 March 1989, p. 51.

60. "Sino-Soviet economic and trade relations enter a new phase of development," *Shijie jingji daobao* (*World Economic Herald*), 20 February 1989, p. 10, in FBIS, 20 March 1989, p. 6.

In March 1989 at both the National People's Congress and the Chinese People's Political Consultative Congress (CPPCC) sessions, deputies from the western regions of China raised the issue of the widening gap between China's coastal and western regions. One delegate pointed out that the central government had never implemented a provision in the 1984 Regional Autonomy Law of Nationalities (RALN) that guaranteed 10 per cent annual increases of central government subsidies to minority (western) regions, and that in fact the RALN had been a basic law for five years without detailed regulations for implementation ever being formulated.⁶¹

The energy crisis of late 1988 to early 1989 exacerbated the coastal-western gap. In a March 1989 article on energy shortages, *Liaowang* (*Outlook*) criticized the use of the western region as a resource base. It mentioned that the north-western provinces shipped out energy resources to meet demand in the coastal area and contributed to coastal hard currency earning exports even while the north-west's own energy demand was not being met.⁶²

Also during March 1989, the State Council issued the "Decision of the State Council on the Outlines of the Current Industrial Policy" as a means of asserting the central government's control over the economy. Agriculture, transport, energy and raw materials received priority treatment. Energy-intensive products including motor vehicles and electrical appliances were placed under stricter control. In foreign trade, it called for a shift from exports of natural resources needed by the domestic economy to a higher proportion of manufactured goods. Export of raw materials in short supply in the domestic economy was banned.⁶³

Xinjiang Plan Bargaining and the Eighth Five-Year Plan

After intense lobbying of Beijing by multinational oil corporations led by Exxon and Mobil, the State Council held a meeting with petroleum officials in early 1989, in the midst of the 1988–89 energy crisis, to examine the question of foreign exploration of Xinjiang's basins. China National Petroleum Corporation (CNPC) argued for self-reliant development. As a spokesperson for CNPC stated,

Foreigners always brag about their superior technology.... We've seen through their ploy in the past ten years. With all their technology, foreign companies aren't able to extract oil in the South China Sea. We have loads of experience drilling onshore. We don't need them.⁶⁴

61. "Deputies discuss western region economy," Beijing Domestic Service, 31 March 1989, in FBIS-CHI-89, 4 April 1989, p. 48.

62. "China's energy resource industry awaits true 'Slanted Investments'," JPRS-CEN-89-004, p. 1.

63. "Text of State Council's industrial policy," *Renmin ribao*, 18 March 1989, pp. 4–5, in FBIS-CHI-89-061, 31 March 1989, pp. 40–51.

64. Julia Leung, "A reluctance to increase foreign role in oil exploration may backfire on China," *Asian Wall Street Weekly*, 3 June 1991, p. 11.

CNPC's views prevailed at that meeting, but it had its exploration budget cut the following year as Beijing's fiscal deficit worsened. With crude oil prices insufficient to cover the cost of exploration, CNPC's approach was infeasible.

Despite Beijing's budget deficit, the middle of 1989 marked a turning point for Xinjiang's role in the Chinese economy, as Beijing's plans for industrialization accelerated and Xinjiang gained priority status in the Eighth Five-Year Plan.

When the Governor of Xinjiang, in July 1989, referred to the "double opening" of increased contact with domestic as well as foreign markets, supporting the coastal economy with raw materials and opening to the Middle East and the Soviet Union, it was clear that the ideas of Xinjiang economists had penetrated the thinking of its leaders. According to the Governor, the "double opening" would also mean that raw materials processing would be sited in Xinjiang as part of an accelerated industrial development plan.⁶⁵ It was at this time that Beijing announced plans for a \$600 million petrochemical complex in Xinjiang's Dushanzi oil field,⁶⁶ an indication that the region should in the future capture more revenue from its petroleum resources than it had before, when it shipped crude oil to other provinces.

The opening to the domestic economy meant better integration for Xinjiang with the coastal region. In December 1989, the Minister of Light Industry announced that preference would be given to six provinces in the western region to develop light industry and thus narrow the gap between the western and coastal regions. Policies that required the developed coastal region to aid minority (western) areas through economic and technological co-operation, although active between 1979 and 1985, had not been implemented since 1985. The State Nationalities Affairs Commission announced that they would be rekindled. The State Planning Commission encouraged this co-operation as a means of creating raw material bases in minority areas.⁶⁷

In January 1990, the President of China National Petroleum Corporation, Wang Tao, stated that China's exploration priorities had shifted to the western region in order to accelerate Xinjiang's development. He denied as unfounded reports that China would build export pipelines through neighbouring countries on its western border, that is, to ship petroleum through the Soviet Union. He reiterated the official policy that China would build a 3,000-mile pipeline to the coastal region to meet domestic demand there or export to the Asia-Pacific region. Wang also indicated that China

65. "Xinjiang Governor explains open door program," *China Daily (Business Weekly)*, 10 July 1989, p. 4, in FBIS-CHI-89-133, 13 July 1989, p. 78.

66. Energy Program, Resource Systems Institute, *The Asia-Pacific Petroleum Report: Second Quarter, 1989* (East-West Center, Honolulu, August 1989), p. 1.

67. "Light Industry Minister on western regions," Xining Qinghai Provincial Service, 8 December 1989, in FBIS-CHI-89-237, 12 December 1989, pp. 26–27.

would rely on its own efforts to develop the western region, although he did not exclude the possibility of future foreign company participation.⁶⁸

Western multinational oil companies had hoped they would participate in joint ventures in Xinjiang, but by 1990 they had only sent geological missions to determine the province's potential and carried out preliminary discussions of co-operation with the Chinese. Low prices on the world oil market (\$17–18 bbl) prior to the Iraq invasion of Kuwait had reduced multinational oil companies' interest in Xinjiang, whose oil reserves at an estimated \$25 bbl even before tackling transport difficulties, were comparatively costly. World market prices are predicted to rise by the mid-1990s and were already at \$25–28 bbl by August 1990 as a result of the Gulf Crisis, revising the cost calculations.

British Petroleum has led a consortium, including Nippon Oil, Mitsubishi Corp., C. Itoh, Broken Hill Property and Petrobras, which has petitioned Beijing for years to open the western basins to foreign participation, so far unsuccessfully. Idemitsu Kosan Co., Japan's second largest oil company, sent a representative to the Tarim Basin in the summer of 1990 to explore possibilities for a concession there. The direction of Xinjiang's pipeline was a major centre–locality issue, requiring resolution before foreign participation could be considered. Xinjiang wanted to use its new rail line running westward through Soviet Central Asia to export petroleum to Europe. Beijing wanted to use pipeline and rail to ship eastward to support the eastern (Shanghai) and coastal region's industrial needs.⁶⁹ This dispute was one more issue in the struggle over the direction of Xinjiang's Open Door policy.

During the autumn of 1990, contending factions in the Chinese leadership used the Eighth Five-Year Plan as a battleground to debate issues of widening or closing the Open Door, whether to abolish the contract-based system for revenue sharing between centre and localities, and the degree of central control over provincial economies. Two meetings of the State Planning Commission held in Beijing, in September and late November, failed to convince provincial governors to relinquish their autonomy.

During interviews with the State Planning Commission in October 1990, it was clear that it gave broad support to the proposed priority status of Xinjiang and the western region in the Plan, while the region's opening to the world economy had more mixed support. The SPC's Regional Department wanted the western region's contact to be through the coastal region, thereby promoting "horizontal linkages," that is, increased integration of the domestic economy. The SPC's Energy Research Institute supported the Eighth Five-Year Plan's

68. Wang Tao, "Exploratory emphasis shifts to the west," *World Oil*, January 1990, p. 28.

69. Interviews with energy experts in Beijing, October 1990.

emphasis on the western region because it would increase energy supply. On the question of Xinjiang's Open Door, the Institute felt Xinjiang needed international co-operation to obtain necessary petroleum technology and investment. The State Council's Research Centre for Economic, Technological and Social Development produced a report urging acceleration of development in the western region and supported Xinjiang's opening, a reversal of its earlier position.⁷⁰

In the early autumn of 1990, after a long period of negotiations, Beijing cut a deal with Xinjiang in a classic example of plan bargaining. Beijing would retain control of Xinjiang's oil, and the pipeline would extend to the east for Shanghai consumption and for export. Xinjiang could retain all the associated gas to use for a petrochemical complex and industrialization. Beijing agreed to a generous profit retention rate for Xinjiang.⁷¹ Xinjiang's charges of resource exploitation had given the region an enhanced bargaining position with Beijing, as had co-operative projects with Central Asia for resource development.

The final draft of the Eighth Five-Year Plan, announced late because of the debate, reflected the influence of reformers at the centre allied with provincial officials. The Plan gave priority to Xinjiang and the western region, extended the Open Door policy to the interior provinces, and retained the contract system of revenue sharing.⁷² Xinjiang's "double opening" was formally written into the plan. This analysis suggests that local resistance to Beijing's policies and uncertain central control of the region had been factors in China's refusal to permit foreign participation in Xinjiang oil development. By November 1990, Li Peng indicated state control was firm enough to announce to Mitsubishi executives that Beijing welcomed foreign participation in the Tarim.⁷³ An agreement was finally signed between CNPC and Japan National Oil Corporation in July 1991, the first agreement for joint exploration of the Tarim. In February 1993, CNPC announced it would hold the first round of bidding for exploration rights in the Tarim, but by 1993 the international oil industry was more interested in basins in the former Soviet Union.

Beijing's concern with Xinjiang's integration was not entirely confined to closer economic linkages. In the summer of 1990, the PLA defined several of China's border areas as "zones of uncertain control," and named Xinjiang as the "zone of most uncertain control."⁷⁴ These zones correspond to the border regions engaged in

70. Interviews in Beijing with the State Planning Commission, 15–19 October 1990. Each SPC organization interviewed was in the process of considering the western region in the Eighth Five-Year Plan. Resource allocation was central to those considerations.

71. Private communication with an energy analyst in the U.S. Embassy, Beijing, October 1990.

72. Julia Leung, "Chinese reformers gain ground in Five-Year Plan," *Asian Wall Street Journal*, 26 November 1990, pp. 1 and 4.

73. *Petroleum Intelligence Weekly*, 12 November 1990, p. 17.

74. Private communication with Russian scholar, Honolulu, August 1990.

transnational economic relations. Coming at a time when troop reductions were being negotiated along the Sino-Soviet border, the announcement seemed out of step with the overall trends of détente. The timing of this announcement suggests it was part of the bargaining over the Eighth Five-Year Plan that was going on between Beijing and Urumqi.

Ownership of Xinjiang oil, the degree of processing to be undertaken in Xinjiang, the direction of the pipeline and the profit retention rate were all issues that entered the bargaining process. Resolution of these issues all indicated increased emphasis on Xinjiang's economic development. The priority status accorded Xinjiang in the Eighth Five-Year Plan formalized this priority.

Conclusion

Beijing's strategy of the Great International Circles has served China's national interests well in securing more peaceful and prosperous relations along its entire border. It has opened up China's international options and permitted it to avoid dependence on any single potential hegemon such as the United States, Japan or the Soviet Union. For this reason, China can be expected to continue pursuing this strategy whatever the present difficulties with the United States or Japan in the Asia-Pacific economic circle. The strategy, however, has also created opportunities for transnational forces that could threaten the regime's control of various regional economies. This has progressed the farthest along the coast. It has also created enhanced opportunities for provincial governments to bargain with the centre. Xinjiang's priority status in the Eighth Five-Year Plan is the result not only of Beijing's need for Xinjiang's resources but also the region's access to alternative, foreign sources of development assistance for those resources.

The optimal strategy for Xinjiang appears to be the "double opening" to both the Great Islamic Circle and the domestic economy of Han China. This maximizes both of Xinjiang's roles in the Open Door policy, and puts it in a pivotal position if investment, technological assistance and trade increases from the Middle East, the Soviet Union and China's coastal area. It ultimately promotes both increased local autonomy and national integration.

Xinjiang's assertion of its interests in the Eighth Five-Year Plan did not come at the expense of central state capacity in the region. Centre-local negotiations and control are not a zero-sum game. Beijing expanded state capacity in Xinjiang through increased integration of the region with the national economy even while Xinjiang gained increased autonomy to pursue its Open Door policy to the Great Islamic Circle.

Incorporating international influences in explanations of the outcome of centre-local plan bargaining portrays a more politically nuanced process of national integration. A purely domestic analysis

would not have captured the impact of transnational forces, the threat they pose to central control and the opportunity they provide to regions for bargaining with the centre. To understand the limits of Chinese state capacity at the local level fully, and state strategies adopted to retain control within those limits, analysis must incorporate the transnational dimension.