

Making Xinjiang Sanctions Work

Policy Brief No. 2 – The XPCC

Based on *Making Xinjiang Sanctions Work*, July 2022ⁱ

Can economic sanctions address Xinjiang forced labour? The Xinjiang Sanctions research project seeks to answer this question. Drawing on 3 original datasets containing over 12,000 datapoints, confidential interviews and a year of research, this Policy Brief series summarises key findings from the research. For further analysis, and the references and authorities supporting the statements in these Policy Briefs, see the project's main research study at www.xinjiangsanctions.info.

The Xinjiang Sanctions Policy Brief series:

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Key research findings

- The Xinjiang Production and Construction Corps (XPCC) is a key instrument for the CCP leadership in Beijing to project and maintain power in XUAR.
- Starting out as a settler garrison, it has evolved into both a complex corporate conglomerate – with 13 subsidiaries listed on Chinese stock markets and more than 862,000 holdings in 147 countries – and a ‘state within a state’.
- In 2021, XPCC production was about 25 per cent of XUAR GDP, and XPCC membership represented around 13 per cent of XUAR population.
- The XPCC has been involved in Xinjiang forced labour since close to its inception. The form that has taken has evolved with the XPCC, as it has moved from a command economy to a market economy environment.
- Initially XPCC forced labour involved forced and corvée labour of around a million people (largely students) in annual harvests. This has subsequently evolved into forced labour in factories and facilities, including participation in the Poverty Alleviation through Labour Transfers programme.
- The XPCC has also been involved in forced labour in detention contexts throughout its existence. It played an important role in constructing and operating VSETC facilities, and appears to have had a stake in many of the industrial parks where VSETCs have been co-located.
- While XPCC firms are profitable, they receive major budget support (c. 90 per cent) from Beijing. This points to the XPCC serving a strategic function for the CCP in its governance of XUAR, even as it provides a field for a range of actors to pursue commercial goals.

Why is this important?

- Understanding which actors perceive the XPCC in which way will be important for effective sanctions design.
- How actors perceive the XPCC will influence how they understand the costs and benefits of different sanctions measures. For example, XPCC-linked companies controlled by specific XPCC Divisions may respond as much to local interests, such as local Divisional managers and Party officials, as to centralised policy-setting from Beijing.
- Sanctions design may need to consider how Xinjiang sanctions work in different economic sectors and supply-chains. (See Policy Briefs Nos 7, 8, 9.)

Research overview

One organisation has been central to CCP rule in Xinjiang: the Xinjiang Production and Construction Corps (新疆生产建设兵团 – *Xīnjiāng Shēngchǎn Jiànshè Bīngtuán*, or simply *Bīngtuán* – the ‘Corps’). In 2021, XPCC production represented about 25 per cent of Xinjiang Uyghur Autonomous Region (XUAR) GDP, and XPCC membership represented around 13 per cent of XUAR population. The shifting form and function of the XPCC reflects Xinjiang’s changing political economy.

The first 45 years

The XPCC was founded as a settler military garrison on the PRC’s north-western frontier in 1954, spun out from the People’s Liberation Army, while President Xi’s father was the top CCP representative in the region. When the XUAR was formally established in 1955, the XPCC was made answerable to *both* local authorities and Beijing – an insurance policy for the centre against potential separatism.

As a settler garrison, the XPCC followed traditional Chinese patterns of military agri-settlement for stabilising contested frontiers (屯田, *tuntian* and 屯墾, *tunken*). The XPCC maintained a militaristic culture and organisation, including a commitment to autonomy from the local population. It was organised through 14 ‘Divisions’ and, today, 174 ‘Regiments’. They historically lived apart from the local populace, carving out farms and towns in sparsely populated areas of Xinjiang, particularly the north, in what was billed as an effort to avoid competition with the local population for scarce resources. Cotton, wheat, tomato, sugar beet, dates and grapes were planted on a large scale.

These settlements developed into self-governing cities with their own hospitals, schools, prisons and theatres, with the XPCC beginning to resemble a “state within a state”. Today, the XPCC has administrative authority over 10 cities, and an area of 70,000 square kilometres. The XPCC has its own administrative structure, fulfilling governmental functions such as healthcare, policing, judiciary, and education for areas under its jurisdiction, which are funded through taxes, fiscal transfers from Beijing and commercial activity. Nominally subject to the XUAR, the XPCC’s internal affairs, including the administration of its cities and reclaimed land, operate outside the jurisdiction of the XUAR authorities. Instead the XPCC operates under the direction of leaders reporting to the central government. The XPCC is thus a local instrumentality of the Party in Beijing.

The XPCC has been predominantly Han throughout its existence, sponsoring migration by large numbers of Han

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smallholder agriculturalists to Xinjiang from other parts of China. Many non-Han in XUAR consequently see the XPCC as integral to the process of Sinification of XUAR. From the outset, the XPCC also helped to construct strategic infrastructure in the region, including highways and nuclear assets, while retaining a role as a reserve paramilitary force, which Beijing has used several times to suppress rebellions and uprisings. Indeed, the strategic role of the XPCC has been repeatedly emphasised by senior CCP leaders.

The market economy era

After its establishment, the XPCC's paramilitary hierarchy facilitated the early infrastructure projects involved in transforming arid into arable land and worked well in the context of a national command economy. But that same structure and culture raised questions about how to integrate the XPCC into a market economy. Beijing's solution in 1998 was to incorporate the XPCC as a commercial organization. Most of the XPCC's Divisions developed commercial strategies based on their existing assets. The XPCC family of companies – which now includes more than 862,000 companies and holdings, across 147 countries – now operates in the agriculture, infrastructure, plastics and energy sectors. 13 XPCC subsidiaries are listed on Chinese stock markets. The XPCC is also a major provider of low-cost housing in XUAR for Han migrants from other regions of China, facilitating both urbanisation and Sinification.

Forced labour and the XPCC

During its first 45 years, the XPCC generated forced labour through seasonal harvest work on XPCC regimental farms. In an arrangement similar to that used in some Central Asian command economies, the XPCC operated a modernised system of *corvée* labour, mandating annual participation of over a million students aged roughly 6 to 15 per year in the harvest of cotton, sugar beet, tomatoes, chili peppers and other agricultural products. Forced and child labourers were given a daily quota and were fined if they fell short. 10-year-old children were typically required to collect 50 kilograms of tomatoes in a day. Children could only avoid this if their families paid the fine covering the full quota, which created strong incentives for corruption. As the XPCC moved into industrial sectors over the last three decades, XPCC-family factories and facilities became destinations for minority workers, particularly through the Poverty Alleviation Through Labour Transfers programme (see Policy Brief No. 1).

A second connection to forced labour developed as the XPCC began to provide carceral services to other PRC regions, taking their (largely Han) prisoners for a fee. Many of these were political prisoners subjected to the *laojiao* forced labour system, including in important infrastructure projects (such as the construction of missile and nuclear installations, and in uranium mining), and on XPCC farms and production facilities (including coal mines). The Xinjiang Public Security Bureau – which is amongst the most widely sanctioned entities in the XJS-GMS dataset – was at the heart of this “prison business”. This carceral infrastructure and expertise, combined with XPCC interests in light industry and manufacturing, has underpinned the XPCC's important role in the development of the Vocational Skills Education and Training prison-industrial complex over recent years (see Policy Brief No. 1). This has included a role in the construction of internment camps. The industrial parks with which VSETCs are co-located are frequently built, owned, or

operated by the XPCC. The Corps also seems to play a supporting role in the system of oppressive policing and surveillance that operates outside the detention camps, including the programme of intrusive home visits.

Is the XPCC a profit or cost centre for Beijing?

There are 2 ways to read the XPCC today, each pointing to a different sanctions strategy. One reading sees the XPCC as a complex commercial venture, which has helped integrate XUAR into the global market economy. This reading sees the XPCC as a profit centre for Beijing, a 21st Century East India Company that extracts value from Xinjiang (natural resources and labour), capitalising it through insertion into global trade and finance circuits. XPCC-linked forced labour is, in this reading, like an updated version of now-outlawed colonial use of forced and *corvée* labour. The brands, buyers and investors that profit from the artificially low cost of this labour are critical to the sustainability of the system; if sanctions induce them to withdraw from that system, XPCC profitability can be reduced and forced labour might be abandoned.

An alternative reading suggests that the XPCC's adaptation to the market economy has not been such a great success. Burdened by governmental responsibilities over large territorial tracts, cities and millions of people, including a huge cohort of pensioners, the XPCC is instead portrayed as a major cost-centre for Beijing, which has to cover around 90 per cent of its budget. The XPCC's export and commercial ventures are better viewed as loss mitigation measures or through a non-commercial lens. Forced labour may be profitable for the firms using it, for the investors in those firms, and for the consumers of goods priced below true cost – but only because the business model is underwritten by massive fiscal transfers from Beijing. In this reading, the rationale for those transfers is not strictly economic or commercial, but rather strategic and political, aiming at the stabilisation and effective control of XUAR.

Both may be correct. Different actors within PRC perceive the XPCC differently. The two rationales thus co-exist. For the CCP's top-level leaders, Xinjiang and the XPCC are strategic concerns. The XPCC is part of a larger effort by Beijing to enlist business in furthering Beijing's strategic goals, such as stabilisation of XUAR and, possibly, assimilation of its ethnic minorities. For other actors, the XPCC is a field within which they can advance their own commercial, financial and professional interests.

Understanding which actors perceive the XPCC in which way will be important for effective sanctions design. How actors perceive the XPCC will influence how they understand the costs and benefits of different sanctions measures. For example, XPCC-linked companies controlled by specific XPCC Divisions, or managed by a Divisional SASAC, may respond as much to local interests, such as local Divisional managers and Party officials, as to centralised policy-setting from Beijing. In those cases, influencing XPCC involvement in forced labour might depend as much on targeting and influencing the incentives of these local officials, as on influencing actors in Beijing. Sanctions design and target selection may need to consider how sanctions work in different economic sectors and supply-chains within Xinjiang. (See Policy Briefs Nos 7, 8 and 9.)

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¹ James Cockayne, *Making Xinjiang Sanctions Work: Addressing forced labour through coercive trade and finance measures* (Nottingham: University of Nottingham, 2022).