



## China Resets Terms of Engagement in Central Asia: Energy and Great Power Conflict 中央アジアにおける中国の新たな関わり方—エネルギーと大国間相克

M K Bhadrakumar

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Nursultan Nazarbayev has a way of drawing lines in the sand. The president of Kazakhstan recently told global oil and metal majors that new laws would allow only those foreign investors that cooperate with his industrialization program to tap his nation's mineral resources.

"We will work only with those who propose projects helping diversification of the economy," he said at a December 4 investment conference in Astana, the Kazakh capital, which was attended by ArcelorMittal, Chevron, Total, ENRC and other investors. To any unwilling to collaborate, he said: "We will look for new partners, offer them favorable conditions and resources to fulfill projects."

For good measure, he added that Beijing has asked Kazakhstan - a country the size of Europe but with just 16 million people - to allow Chinese farmers to use one million hectares of Kazakh land to cultivate crops such as soya and rape seed.

Pro-Western elements in Kazakh politics have since taken to the streets. On December 17, addressing a rally in Almaty, Bolat Abilov, co-chairman of the opposition party Azat [United Social Democratic Party] drew an apocalyptic scenario: "If we tomorrow give, or distribute, one million hectares of land, it would mean 15 people working per hectare. That means 15 million people would be brought from China. If one of those 15 people were to give birth each year, that would be the end. In 50 years, there would be 50 million Chinese [in Kazakhstan]."

A rally was held outside the Chinese consulate in Almaty with placards reading, "Mr Hu Jintao, we will not give up Kazakh land!"



#### A pipeline to the heart of Asia ...

Nazarbayev's message was direct: Western investors could keep their money if interested only in exploiting Kazakhstan's mineral wealth. The president was speaking as a momentous event in the history and politics of Central Asia was resetting the terms of engagement for foreigners in the region: the development of an ambitious 7,000 kilometer pipeline to link the region's gas fields to cities on China's eastern seaboard.

Ten days after Nazarbayev spoke, Hu arrived on a Central Asian tour for the formal commissioning of the 1,833-kilometer pipeline connecting gas fields in Turkmenistan, Uzbekistan and Kazakhstan (and possibly Russia) to China's Xinjiang Autonomous Region.

Turkmenistan says it alone can supply 40 billion cubic meters (bcm) of gas a year through the pipeline for three decades once it reaches full capacity. That is about half China's current annual consumption.

Uzbekistan signed an agreement with China in November last year to export up to 10 bcm gas a year. (A 2006 estimate put Uzbekistan's gas reserves at 1.8 trillion cubic meters.) A branch line of the Turkmen-China trunk pipeline passes through the town of Gazli, in the Bukhara region, where the Uzbek gas can be fed into it. China has invested in the Uzbek gas fields in the region. The Uzbek reserves are primarily concentrated in the Qashqadaryo province and near Bukhara alongside which the Chinese pipeline passes.

Kazakhstan is set to export another 10 bcm gas through another branch pipeline connection. China, which is preparing for a massive increase in consumption, wants natural gas to account for 10% of its energy mix by 2020, from 3% in 2005. China consumed 77.8 bcm of natural gas last year, a little more than its domestic output of 77.5 bcm. However, the nation faces a natural gas shortage of 70-110 bcm by 2020, according to the 2009 Energy Development Report published by the Chinese Academy of Social Science, an official think-tank. All China's gas imports are currently in the form of LNG and it is separately raising its LNG import capacity to 15 million to 18 million tons by the end of next year.

There was widespread skepticism among observers whether the Central Asia pipeline project would see the light of day. Indeed, China pushed ahead against Western views that last year's renewed unrest in Xinjiang put it at risk. "China is putting a lot of eggs in one basket," one British expert said. "An awful lot of oil and gas is coming through a small region. Looking now at trends in Xinjiang, you could ask whether a route from Central Asia is actually more secure than routes through Southeast Asia or the South China Sea."

The implication was obvious: that China's Central Asian pipeline could become a sitting duck for terrorists. As Robert Ebel, at the Center for Strategic and International Studies in Washington, put it, security could be impossible if the pipelines become targets as they pass through vast stretches of sparsely populated areas in Central Asia and Xinjiang. "There is no way you can protect a pipeline along its entire length. It just can't be done", Ebel, a security expert, maintained. Unrest in Xinjiang, particularly, threatens the Central Asian pipeline, he added. "I'm sure it's causing grey hairs on the people in Beijing," he said.

### **... sends shock waves to Washington**

The American experts have drawn a doomsday scenario for the Chinese pipeline. Writing in the Central Asia & Caucasus Institute Analyst of Johns Hopkins University in October last year, Stephen Blank of the US War College branded Xinjiang as a "pressure cooker" which Beijing is nowhere near controlling.

Growing nervousness in Washington about the Chinese pipeline was quite palpable. The US Senate Foreign Relations Committee held a rare hearing in July regarding China's geopolitical thrust into the Central Asian region. Testifying at the hearing, Richard Morningstar, the US special envoy for energy, underlined that the US needed to develop strategies to compete with China for energy in Central Asia.

This was perhaps the first time that a senior US official has openly flagged China as the US's rival in the energy politics of Central Asia. US experts usually have focused attention on Russian dominance of the region's energy scene and worked for diminishing the Russian presence in the post-Soviet space by canvassing support for Trans-Caspian projects that bypassed Russian territory. In fact, some American experts on the region even argued that China was a potential US ally for isolating Russia.

Certainly, 2009 was a turning point in American discourses on Chinese policies in Central Asia. As China's Turkmen gas pipeline got closer to completion, US disquiet began to surface.

"China is having increasing and heavy influence in Central Asia," Morningstar said. "It is hard for us [the US] to compete with China in some of these countries. It's easy for Turkmenistan to make a deal with China when China comes in and says, 'Hey, we're going to write a check for X amount of money, we're going to build a pipeline'. That's not a hard deal to accept, and we [US] can't compete in that way."

Morningstar put forward two suggestions. One, "to develop a strategy to deal with that [Chinese policy] and encourage the US companies to negotiate creatively with Turkmenistan". Two, Washington should also think about whether it makes sense for US companies to cooperate with China in such countries.

Scope for US-China cooperation over Central Asian energy resources is very limited. In geopolitical terms, there is a conflict of interest between the two countries. One principal objective of China is to lock in energy sources that are not dependent on supply routes passing through the Malacca Straits, which the US controls and could prove a choke point in the event of a US-China confrontation.

Besides, Morningstar himself put his finger on the crux of the problem. While it was good for China's energy-hungry economy to get "clean energy" such as natural gas, the "gas that goes to China competes with gas that could go westward".

### **Beijing raises the stakes ...**

However, the US realizes that devising a counterstrategy to China's is easier said than done. China's presence in the Central Asian energy scene was not a single day's happening. Painstaking diplomacy spread over years went behind it. It was back in 1997 that Kazakhstan and China agreed to build a 3,000 km crude oil pipeline and would later double capacity to 20 million tonnes a year.

In 2005, CNPC International paid almost \$4 billion for a 33% stake in PetroKazakhstan. The following year China bought up Kazakh oil assets worth nearly \$2 billion in the Karazhanba oil and gas fields (which has proven reserves of more than 340 million barrels), agreed to purchase 30 bcm gas from Turkmenistan ((later increasing this to 40 bcm), and committed \$210 million to look for oil and gas in Uzbekistan over the next five years.

In 2008, Kazakhstan and China agreed on jointly developing oil and gas reserves on the continental shelf of the Caspian Sea, while China's Guangdong Nuclear Power Co and Kazakhstan's state nuclear firm Kazatomprom agreed on boosting uranium output in their joint venture.



### **The unveiling ceremony for the construction of the Kazakhstan-China gas pipeline on July 9, 2008, in Kazakhstan's Almaty region.**

In April 2009, China made the mother of all energy deals by agreeing to lend Kazakhstan \$10 billion in an unprecedented "loan-for-oil" deal and also agreed with state-owned KazMunaiGas to jointly buy oil producer MangistauMunaiGas for \$3.3 billion.

In 2009, China also agreed to issue a \$3 billion loan for developing the Central Asian state's largest gas field, South Iolotan, which is estimated to contain anywhere between 4 trillion and 14 trillion cubic meters of gas, according to Britain's Gaffney, Cline and Associates - making it one of the world's five largest gas deposits.

By the time the US woke up to China having a clear energy strategy for Central Asia, the strategy was already working. Western calculations went awry in two directions. First, they estimated that, in the ultimate analysis, Central Asian states would be wary of dealing with their giant neighbor and prefer Russia and the West. Second, they blindly assumed that Russia in any case was bound to perceive the Chinese gains as a threat to its own strategic interests and would therefore resist and checkmate Beijing at some stage, indirectly serving Western interests.

To the dismay of the West, not only have the Central Asian states warmed to Chinese overtures, but they are basking in all the Chinese attention and relishing the harder bargains they are able to strike in negotiating prices and contracts with Western companies.

Again, China's engagement in Central Asia has been comprehensive and not confined to oil and gas. Central Asians have been seeking precisely such input from foreign countries as Nazarbayev voiced in Astana. Speaking to Chinese media in Ashgabat on the eve of Hu's arrival for the commissioning of the gas pipeline on December 14, Turkmen President Gurbanguly Berdymukhamedov highlighted repeatedly how his country's relations with China have become "multi-faceted".

"They now cover all major areas - politics, economy, trade, culture, science, education," Berdymukhamedov said. "And, so, of course, there are a lot of topics for discussion during our meeting with the president of China. The main thing is that they all have a positive context, the very favorable background as the basis for negotiations, and their starting position on both sides favors complete mutual understanding and trust, equality and respect, unity of views on key issues of world politics and bilateral relations."



**Wen Jia-bao and Berdymukhamedov in Turkmenistan, Nov 4, 2007**

Western experts often say in a dismissive tone that the Central Asians prefer the Chinese because they never raise difficult issues such as democracy and human rights. But this is far too simplistic a reading. Central Asian countries see Western discourse on democracy and human rights as doublespeak from countries that pander to authoritarian regimes without scruples when it suits their business interests.

Central Asian countries draw satisfaction from the fact that Washington is no more trampling on the region's sensitivities and ethos. The fashion in which Uzbekistan taught an enduring lesson to the European Union and the US regarding mutual respect and equitable relationship was widely noted in the region's capitals.

But that is only part of the story. The main thing is that China has reset the terms of the West's engagement with Central Asia. Western countries need to negotiate hard with Central Asian interlocutors. Secondly, while they are under compulsion to abandon the cherry-picking approach they once took - touching the region's precious minerals and shying away from any further involvement such as in the manufacturing sector or agriculture - the ground rules of engagement that Nazarbayev spelt out at the investors' forum in Astana give a foretaste of what is to come.

China's track record in Turkmenistan displays the new standards for the west. China-Turkmenistan trade has jumped 40 times since 2000; 35 enterprises are working in Turkmenistan today with Chinese capital. Chinese companies are active in sectors of the Turkmen economy as diverse as oil and gas, telecommunications, transport, agriculture, textile, chemical and food industries, healthcare and construction.

From Ashgabat's point of view, China's interest in comprehensive engagement with the Turkmen political economy stands in contrast with the predatory instincts of the Western companies that zero in on the mineral industry with maniacal zeal. Certainly, in the process, China also ends up taking a big share of the Turkmen energy sector.

### **... but reassures Moscow**

The second aspect to be noted is that with the commencement of China's Central Asia pipeline, Russia's post-Soviet control of gas exports from Central Asia has ended. The American commentators have tried to propagate this in terms of China's gain turning out to be Russia's loss. But it isn't quite a zero-sum game in that sense. Beijing has been unusually forthright in discussing the delicate issue of whether China is locked into competition with Russia over Central Asia's energy.

"China is pursuing diversification of energy imports, while the Central Asian countries are pursuing diversification of exports," said Zhang Xiyuan, the Chinese foreign ministry official briefing the press on Hu's visit to Ashgabat. "This kind of cooperation will naturally continue and has room to develop."

In other words, China's cooperation with Central Asia rests on a convergence of mutual interests. Chinese commentaries have stressed that "export diversification" as a strategic option has become necessary for Central Asian countries after the financial crisis and as European countries' demand for the region's natural gas has decreased.

Pan Guang, director of the Shanghai Center for International Studies and a prominent scholar, says China's "huge foreign-exchange purchasing capacity and advantageous geographical position is extremely attractive" to the gas exporters of Central Asia. China's energy cooperation will also promote development of non-energy industries in the region such as chemical, agricultural, transport infrastructure construction and light industries, according to the Chinese analysts. Russia's security interests would also be served, as unemployment, a root of instability, will be cut, they said.

Taking all factors into account, therefore, the *People's Daily* newspaper concluded that the Chinese pipeline was an opportunity for Russia.

"Some people in Russia are concerned and media agencies have exaggerated the event to attract public attention, asserting that China will become Russia's major strategic competitor in the Central Asian energy industry," the newspaper said. "In fact, it is not the case."

"Experts believe that the pipeline can transport natural gas produced both in Turkmenistan and in Russia ... [the] China-Russia pipeline mainly transports oil and natural gas produced in the eastern Siberian region. It is difficult to transport natural gas produced in both the western Siberian region and Russia's European part, so the China-Central Asia natural gas pipeline will perhaps act as a 'key' to addressing the issue."

"In addition, the natural gas cooperation between China and Central Asia is open and non-exclusive, and does not seize Russia's market or compete with Russia for resources," the *People's Daily* said.

In essence, the Chinese argument is that while the Turkmen-Uzbek-Kazakh pipeline possibly makes inroads into Europe's energy options it won't hurt Russia's interests. The argument is well founded. With the commissioning of the Turkmen gas pipeline, there is no doubt that US and European energy diplomacy in Central Asia has been rendered a lethal body blow.

Through one mega project, Beijing has what Moscow has been striving for in the course of more than a decade with a piecemeal approach. The European Union's chances of winning Turkmen supplies for its US-backed Nabucco pipeline project (connecting the Caspian with southern Europe) now seem severely diminished. Moscow can heave a sigh of relief, as the Nabucco project planned to cut Russia out of Europe's direct gas trade with the Caspian.

Therefore, if there is a zero-sum game, it looks like this: China's gain is Europe's loss, which in turn can be Russia's gain since Russian gas is now certain to remain Europe's main energy source for the foreseeable future. Needless to say, Europe's continued dependence on Russian energy constitutes a vital chip for Moscow in its efforts to forge partnerships with major European countries.

Indeed, Russia can now advance its ambitious North Stream and South Stream gas pipelines to Europe without constantly having to look over its shoulder for competition from rival US-backed Trans-Caspian pipelines such as Nabucco.

Again, the US and Europe couldn't have missed the Chinese warning that Beijing intends to make a serious bid at some time for the Russian gas produced in its western Siberian region as well as its European part (which are at present the principal sources of supply for Europe). In effect, China has projected itself as a competing consumer of Russian gas.

All in all, the Chinese pipeline considerably strengthens Russia's stance. This probably explains the quiet satisfaction in Russian Prime Minister Vladimir Putin's voice when he was asked about the implications of the Turkmenistan-China gas pipeline.

"The commissioning of the Turkmenistan-China pipeline is not going to affect our plans to expand our own pipeline network, which could possibly also reach China," Putin said. "I am referring to China's growing consumption of primary energy resources. We maintain regular, close contact with our Chinese colleagues on this issue. We know how fast the demand is growing there, and they too are closely monitoring the situation. The gas link to Turkmenistan will not undermine our plans."

Most important, the "loss" of Turkmen gas for Nabucco means that the project itself now critically depends on sourcing Iranian gas. In other words, Iran figures prominently in any serious European plans (strongly backed by the US) to diversify its gas imports so as to cut down dependence on Russian energy supplies.

### **US draws Central Asia into AfPak ...**

To be sure, 2009 will be noted by historians as a landmark year for Central Asian security. For the first time in the post-Soviet period, a truly regional project has taken shape in Central Asia. It is a novel experience for a region torn asunder by numerous intra-regional tensions, irritants and misunderstandings - be it over water-sharing, Islamists, the environment or the "great game". This was underscored by the presence of the presidents of Turkmenistan, Uzbekistan and Kazakhstan at the ceremony launching the Turkmen gas pipeline project.

It cannot be lost on the Central Asian elites that China has made such a high level of regional cooperation possible. Hu in his speech at the ceremony cited the Turkmen pipeline as a model of regional cooperation. China is reaping the benefit of some 15 years of patient, painstaking diplomacy. It will now be a Herculean task for the West to whip up Sinophobia among the Central Asians.

At the same time, China is assuming an enormous responsibility in the region as at no time previously. The gas pipeline makes China a "stakeholder" in Central Asian security. The bond now goes far beyond fighting the three forces of "terrorism, separatism and extremism", which was how China focused its phenomenally successful diplomacy in the mid-1990s.

Looking ahead, the coming year will see the US intensify efforts to counter China's influence in Central Asia. The alarm bells are ringing in Washington. At the US Senate Foreign Relations Subcommittee special hearing on Central Asia on December 15, George Krol, the deputy assistant secretary of state for South and Central Asian affairs, said: "This administration does not consider Central Asia a forgotten backwater, peripheral to US interests. *The region is at the fulcrum of key US security, economic, and political interests.* It demands attention and respect and our most diligent efforts and the Obama administration [is committed] to this very approach." [Emphasis added.]

Never before has an American official stated US intentions towards post-Soviet Central Asia in such strong words. Indeed, there is an implied

warning to Beijing that the US is watching its forays into the region closely and will not let them pass without challenge.

From present indications, the US attempt is to widen the gyre of its AfPak strategy so as to draw the Central Asian region into it. In empirical terms, a case already exists for including the region in the AfPak strategy. For one thing, the Northern Corridor for supply of the North Atlantic Treaty Organization (NATO) contingents in Afghanistan and the sourcing of materials from the region for Afghan reconstruction already make the regional governments important collaborators in the war effort.

The increased presence of NATO troops in Afghanistan can only lead to a bigger role for Central Asian countries that is bound to bring them into a closer working relationship. There is also reason to believe that the Afghan war has already spilt over to Central Asia. The exact background to this remains open to interpretation but the fact is that there has been a spurt in militant activities in Central Asia (and Xinjiang).

Deputy Assistant Secretary Krol framed it diplomatically by underlining that a policy priority of the US will be "to expand cooperation with the Central Asian states to assist coalition efforts to defeat extremists in Afghanistan and Pakistan and bring stability and prosperity to the region". This goes hand in hand with the effort to "increase the development and diversification of the region's energy resources and supply routes".

Potential threats that could come from Central Asia, apart from the possibility of "state failure" would compel the US to pay close attention to the region, Krol said. He also invoked archetypal fears about terrorists getting hold of weapons of mass destruction, which has proved a useful argument for substantiating US intervention in Iraq and Afghanistan.

"While these [Central Asian] countries voluntarily relinquished their nuclear arsenals after the fall of the Soviet Union, today the region is still engaged in activities relevant to the proliferation of weapons of mass destruction, namely, uranium mining, plutonium production and the fabrication and testing of biological and chemical weapons," Krol said.

In a measure of US determination to place itself in a lead role in Central Asia, the Obama administration has announced the constitution of a new framework of annual high-level bilateral dialogue with each of the region's countries.

### **... as it runs out of options**

US interests would have been best served if Russia and China were at loggerheads in Central Asia. But that does not seem to be the way things are happening.

Moscow looks favorably on China's investments in Central Asia, according to Stephen Blank of the US War College. "By opening the RFE [Russian Far East] to Chinese investment and blessing similar investments in Central Asia, Moscow is reversing its policies toward both the Far East and Central Asia," Blank wrote in August. "In effect, this and other similar deals open the door to a huge expansion - with Moscow's assent - of China's strategic profile in both regions. The creation of a new regional order in the RFE and Central Asia is beginning to take shape and China is set to become the region's security manager, ensuring foremost that its portfolio investments are safe and secure."

The shift in the Kremlin's traditional policy with regard to the RFE has been necessitated largely by the downturn in the Russian economy following the global economic crisis and the sharp drop in oil revenue. Moscow was pursuing a policy aimed at developing the RFE and eastern Siberia almost exclusively through revenues from energy exports to Europe. But with the slackening energy demand in the European market and sharply reduced income from exports, the Kremlin cannot sustain the pursuit of such a dogged policy option anymore. It has been compelled to rethink.

This was evident in May when Russian President Dmitry Medvedev admitted that the development of the RFE needed to be coordinated with Beijing's regional strategy of rejuvenating northeast China's dilapidated industrial base. Unsurprisingly, the Russian policy shift also implies the jettisoning of any attempt to prevent Chinese economic penetration of Central Asia.

Secondly, Moscow faces difficulty in underwriting the security and stability of the Central Asian region on its own steam. This is despite the region's direct impact on Russia's national security interests. At the same time, Moscow has a congruence of interests with China in forestalling NATO's expansion into Central Asia's security. The interplay of these factors encourages Moscow to regard favorably the stepping up of Chinese involvement in Central Asia.

Of course, writings appear in the Russian media occasionally about China's economic "conquest" of Central Asia, but official policy does not seem to encourage such a perspective. The new thinking in Moscow with regard to Chinese investments in RFE and Central Asia may have already begun to pay off. Medvedev claimed during a visit by Hu to Moscow in June that Russia and China had clinched deals worth \$100 billion by a "special mechanism" facilitating massive Chinese investments in regional projects. It is going to be very difficult for the US to disrupt these plans. As Blank put it: "For all those who are watching for the emergence of China as a dominant economic and political player in Asia, these new deals with Russia have a profound significance that we overlook at our peril."

China has the huge advantage of financial muscle. It can simply outspend the US or European countries. Short of stoking the fires of militancy and ethnic unrest in Xinjiang, the US may have run out of options to disrupt China's emerging leadership in Central Asia. On its part, Beijing knows that the stability of Xinjiang is crucial for China's Central Asia policy - and vice versa. The two have become inextricably linked in the Chinese regional strategy.

Beijing knows that "foreign devils on the Silk Road" - militant groups with foreign backers - can harass China by blowing up long stretches of the pipelines which are impractical for Beijing to protect in Xinjiang's vast mountains and deserts. That is one solid reason why Beijing has not been taken in by the US overtures for cooperation in Afghanistan nor is it enamored of Obama's standing invitation to step into South Asia as the arbiter of peace and regional security.

Beijing is extremely wary of the hidden intentions behind the Afghan strategy Obama recently unveiled. In fact, Chinese criticism of the US troop surge in Afghanistan has become quite forceful. Last Thursday, the *People's Daily* wrote: "Yes, sometimes history does recur ... The shadow of the Vietnam War even now still hovers ... what unfolds is replicating the model in Iraq, and further back, in Vietnam."

The war-torn Afghan population will not side with the slumbering Karzai government nor will they welcome the US presence. On the other hand, the bigger footprint made by the enhanced US troops and its NATO allies only help fuel the insurgency and trigger more fierce resistance ... Taliban dies hard.

The predicament facing the US and the one-year old Obama administration is that at this time, there seems no policy that can reverse the undoing in Afghanistan, even with more troops and better-placed tactics. But the young president will try whatever he can to steer clear of the

pitfall that would turn the superpower into an occupying power.

China (and Russia) have reason to be on guard that Obama's Afghan surge and the new strategy as a whole essentially aim at pursuing longstanding US strategic interests of controlling Central Asia and containing Russia and China through "soft power" - methods different from those of previous US administrations. Clearly, Russian-Chinese cooperation in Central Asia factors in the US game plan in the Hindu Kush, which is shrouded in mystery. Having said that, China will also find it worrisome that Russia tends to speak in two voices at times about its ties with NATO within the "reset" of relations with the US.

The specter of an open-ended US military presence in the region haunts China. After all, China was the US's accomplice against the Soviet Union in the Afghan jihad in the 1980s and should know that Washington has myriad ways to make use of radical and extremist elements as instruments of geopolitics. China can see right in front of its eyes the horrible example of its "all-weather friend" Pakistan, which by associating with US strategy in Afghanistan has been dragged into the vortex of instability and become the target of religious extremists and militants.

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