

Escaping Russia, Looking to China: Turkmenistan Pins Hopes on China's Thirst for Natural Gas

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ABSTRACT

Nearly 15 years have passed since the collapse of the Soviet Union. In the former superpower's place stand Russia and 14 other new states. Each of the smaller states has had to decide whether it will rejoin Russia in an economically integrated neo-empire, as Russia has been pursuing, or whether it will shrug off the former imperial center. Turkmenistan's dictator-for-life Saparmurat Niyazov has pursued a Russia-resistant policy. Dependent on Russian-owned natural gas pipelines to export its single vast resource, the state has long looked for alternative routes to international markets. In April 2006, Chinese President Hu Jintao agreed to build a pipeline from Turkmenistan to China, giving the Central Asian leader hope of finally escaping the opportunistic Russia. Several factors will determine whether the pipeline becomes a reality, including Niyazov's ability to reign in his troublesome personality, China's willingness to convert from coal-burning to natural gas fueled plants, and Uzbekistan's interest in a pipeline traversing its territory. If China does build the pipeline, Russia will lose its monopoly over Turkmenistan's cheap natural gas, a loss that could significantly affect Russia's strategy in the region.

Keywords • Turkmenistan • Central Asia • China • Russia • Energy • Pipeline • Natural gas

Nearly 15 years have passed since the Soviet Union ceased to exist. During that time, the leaders of the 14 smaller and economically weaker former Soviet states have had multiple opportunities to demonstrate that they desire renewed economic regional cooperation with Russia. In addition to the 1991 Commonwealth of Independent States Agreement, Russia has designed eight regional economic agreements, many of them with hierarchical features that place Russia in the position of leading a neo-empire. Other agreements include the 1993 agreement on forming a customs union, the 1993 ruble zone under which states agreed to retain the Russian ruble, the 1994 Free Trade Area, the more specific and binding customs union agreement of 1995, the Treaty on Union that calls for a type of federation between Russia and Belarus, the broad-based Eurasian

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Economic Community which Russia overtly modeled after the European Community, and the 2004 Common (or Single) Economic Space.

Individual former Soviet states have signed anywhere from zero to all eight agreements, with the Baltic states at one end of the spectrum with zero agreements, Belarus at the opposite end with all eight, and others falling all along the range. In previous work, I divided the states into three groups: Russia Friendly, Russia Resistant, and Mixed.¹ Within these groups, perhaps the oddest bedfellows are the economically and socially liberal states of the Baltic Sea (Estonia, Latvia, and Lithuania) and authoritarian Turkmenistan, all in the Russia Resistant category. This article focuses on Turkmenistan's relationship with Russia and the leader's desire to escape dependence on Russian natural gas pipelines in part by wooing China as a critical future customer.

"The Worst of the Worst"

President Saparmurat Niyazov governs a highly centralized authoritarian system with a strong personality cult. Preferring a grandiose title over the mundane "president," he has dubbed himself Turkmenbashi, "Leader of all Ethnic Turkmen."² Rivaling the most egocentric of dictators, Niyazov's visage is omnipresent. As a visitor reported, "The golden likeness of the former communist party boss-turned-dictator is in the center of the capitol, always rotating to face the sun. His picture is on the airplane that brings you to the main port town called Turkmenbashi. It watches over workers in the field, over children in school, over drivers on the road. He's also on the money, and he's even on the national vodka."³ Niyazov has declared a national holiday to honor his favorite fruit, the melon, a fact revealed in an American radio show designed to demonstrate the dictator's absurd decrees.⁴ The President renamed January "Turkmenbashi" and changed April to his mother's name.⁵ Adding to his reputation for being both authoritarian and bizarre, Niyazov recently made international news when he outlawed lip-synching as damaging to the culture.⁶

¹ Kathleen J. Hancock, "The Semi-Sovereign State: Belarus and the Russian Neo-Empire," *Foreign Policy Analysis* 6 (2006): 117-136.

² Government of Turkmenistan, Embassy in the United States, Government and Politics, <www.turkmenbashi.org> (March 4 2006).

³ Bob Simon, "Turkmenbashi Everywhere: If You Think Saddam Was Fond of Himself, Visit Turkmenistan," CBS News, 60 Minutes, January 4 2004, <<http://www.cbsnews.com/stories/2003/12/31/60minutes/main590913.shtml>> (March 5 2006).

⁴ National Public Radio. Wait, Wait, Don't Tell Me, "Not My Job: D.C. Mayor Anthony Williams," <<http://www.npr.org>> (June 12 2006).

⁵ Simon, "Turkmenbashi Everywhere".

⁶ "Just Don't Move Those Lips," *Calgary Sun* (Alberta), August 26 2005.

Niyazov goes beyond being simply eccentric. His state was dubbed by Freedom House as one of the 18 “Worst of the Worst: The World’s Most Repressive Societies.”⁷ In October 1990, Niyazov won the state’s first presidential election, ironically making this dictator the Soviet Union’s first popularly elected president. According to official reports, 97 percent of the population turned out for the vote, with 98 percent voting for Niyazov.⁸ Two years later, after official independence, he was re-elected. In the 1994 parliamentary elections, only Niyazov’s party, the misnamed Democratic Party of Turkmenistan, was allowed to field candidates.⁹ At the same time, a referendum extended his term to 2002. Six years later, the 50-member Assembly unanimously elected him leader for life.¹⁰

Following an alleged assassination attempt, Niyazov continued consolidating power.¹¹ The legislative branch no longer has any authority, formal opposition parties are illegal, and Niyazov appoints the Supreme Court judges.¹² Turkmenistan’s freedom of the press rating has gone from a dismal 91 to 96 (out of 100) in 2005. Radio Liberty broadcasts provide the only alternative to the state-controlled media in the Turkmen language. Turkmen journalists working for Radio Liberty have been attacked in Moscow. A reporter was abducted, beaten, threatened with death, and eventually forced into exile.¹³ The state forbids citizens to subscribe to foreign newspapers or magazines, and limits Internet providers to the state-owned and operated Turkmen Telekom.¹⁴

In 2005, the president announced plans for “far-reaching democratic reforms.” He noted that elections are a “recognized practice all over the world” and are “the essence of democracy.” The elections would be introduced in a tiered fashion, he said, with lower level officials being elected first and culminating in a presidential election in 2009. Despite these overtures to democracy, there is little reason to take Niyazov at his

⁷ Freedom House, “World’s Worst Regimes Revealed,” March 31 2005, <www.freedomhouse.org> (January 2006).

⁸ Current Digest of the Soviet Press, November 28 1990.

⁹ Freedom House, Freedom in the World–Turkmenistan <www.freedomhouse.org> (March 5 2006).

¹⁰ World Facts, “Facts about Turkmenistan,” <<http://worldfacts.us/Turkmenistan.htm>>, (January 30 2006); CIRCA (Cambridge International Reference on Current Affairs), “People in Power: Turkmenistan,” November 16 2000.

¹¹ Emmanuel Decaux, “OSCE Rapporteur’s Report on Turkmenistan,” March 12 2003; Reeker, Philip T., “Aftermath of Assassination Attempt in Turkmenistan,” December 3 2002; Reeker, Philip T., Deputy Spokesman. Press Statement: “Continuing Arrests and Abuses in Turkmenistan,” December 31 2002.

¹² World Facts, “Facts about Turkmenistan.”

¹³ Freedom House, “Freedom of the Press, 2002 through 2005”; “Freedom in the World–Turkmenistan 2005,” <www.freedomhouse.org> (February 6 2006).

¹⁴ Freedom House, “Freedom in the World–Turkmenistan, 2005.”

word. Indeed, he went on to explain that he would need to “groom” his successor, suggesting continued personal involvement.¹⁵

Economy Driven by Natural Gas

While Niyazov’s idiosyncratic personality flavors much of the state’s relations in the region, Turkmenistan’s natural resources, historical relationship to Russia, and the natural gas pipelines that weave these two factors together also play critical constraining roles. When international investors speak of the Central Asian state, they are nearly certainly discussing natural gas production and exports. Turkmenistan has about 2.1 trillion cubic meters in reserves, amounting to 1.2 percent of the world’s reserves, and making it the state with the 13th largest natural gas reserves.¹⁶ With large reserves and a small population—just under 5 million—Turkmenistan’s citizens and enterprises require only a fraction of the state’s natural gas. In 2002, for example, Turkmengas and Turkmenneft, the only relevant players in the state, produced 71 billion cubic meters of gas; of that total, Turkmen citizens and industries used only 15 billion cubic meters, or 21 percent, leaving nearly 80 percent for export.¹⁷

According to the *International Energy Outlook 2005*, natural gas will be the fastest growing component of primary energy consumption worldwide. The U.S. projects natural gas consumption will increase by about 2.3 percent annually until 2025, compared to 1.9 percent and 2.0 percent for coal and oil, respectively.¹⁸ With its proven and unproven reserves and relative proximity to several markets, including the increasingly demanding China and India, Turkmenistan appears to be well positioned to capitalize on this growth market. However, President Niyazov must find export routes that can accommodate the growth. Currently, Turkmenistan depends almost completely on Russian-owned pipelines to move its product to the market, leaving it highly vulnerable to Russian pressure.

The Gazprom-owned pipelines deliver Turkmenistan’s exports to Russia and Ukraine, customers that account for virtually all of the Central Asian state’s exports. Because Gazprom’s own natural gas

¹⁵ “Turkmenistan Announces Democratic Reforms, Presidential Elections in 2009,” *News Central Asia*, February 1 2005, originally published on <www.newscentralasia.com> found on <<http://presidentniyazov.tripod.com/id40.html>> (February 27 2006).

¹⁶ U.S. Energy Information Administration, U.S. Department of Energy, *International Energy Outlook 2005*. <www.eia.doe.gov/oiaf/ieo/index.html> (March 2006). This information comes from Table 8 in the agency’s report.

¹⁷ Sergei Rudnitsky, “Turkmenistan’s E&P Projects Achieve Good Pace,” *World Oil Magazine* 224, 1; Burren Energy, “Operations: Turkmenistan,” <www.burren.co.uk/turkmenistan.htm> (March 2006).

¹⁸ U.S. Energy Information Administration, *International Energy Outlook 2005*.

competes for space in the pipelines, Turkmenistan is at the mercy of the gas giant to deliver its exports. Naturally, if Gazprom's pipeline capacity cannot handle all available exports, Gazprom's product will be favored over that of Turkmenistan. This is precisely what has happened. The capacity problem emerged immediately following the collapse of the Soviet system. As a result, in 1991-92, Russia refused to transfer 9 billion cubic meters of Turkmen gas to Azerbaijan, claiming that it lacked the capacity to carry this additional amount.¹⁹

Russia Pressures Turkmenistan

Russia has opportunistically used Turkmenistan's pipeline vulnerability to gain concessions from Niyazov. In May 1993, Turkmenistan was the only CIS state that refused to sign the Agreement on the Formation of Economic Union, a formal structure that Yeltsin had actively pushed.²⁰ This occurred at a time when Yeltsin was locked in a bitter battle with the Russian Duma, making the success of the CIS critical for demonstrating Russia's ability to act like a great power at least toward the other former Soviet states. That year, Russia exported 11 billion cubic meters of Turkmen gas to Europe, where the customer paid in hard currency. Most CIS states, in contrast, were already defaulting on payments. Despite Europe's ability to pay, Russia failed to reimburse Turkmenistan for two months of exported gas, worth about \$185 million, and then informed Turkmenistan it would transport Turkmen gas only to the former Soviet republics and not to Europe. This was a major blow to Turkmenistan, which was already owed about \$1.5 billion for natural gas exported to Azerbaijan, Armenia, Georgia, Kazakhstan, Ukraine, and Uzbekistan.²¹

As Turkmenistan prepared to host the December 1993 CIS Summit, Niyazov began hinting that his state might join the CIS economic union.²² At the Summit, he agreed to allow Russian troops to guard the state's borders with Iran and Afghanistan, to grant Russians dual

¹⁹ Matthew J. Sagers, "Regional Industrial Structures and Economic Prospects in the Former USSR," *Post-Soviet Geography* 33 (1992): 487-515.

²⁰ Sergei Shargorodsky, "Former Soviet Republics To Form Economic Alliance," *Associated Press*, May 14 1993; Ivan Ivanov, Gennadi Talalayev, and Leonid Timofeyev, "Nine CIS States O'Kay Economic Union," *ITAR-TASS*, May 14 1993.

²¹ International Gas Report, "Turkmen Supplies Cut Back," *Financial Times Business Limited*, FT Energy Newsletters, February 18 1994; "Azerbaijan: Reduced Supplies of Gas From Turkmenistan," *BBC Summary of World Broadcasts*, February 18 1994.

²² "Turkmenistan may become full member of CIS, according to Niyazov," *ITAR-TASS*, December 20 1993; Lyudmila Glazovskaya, *BBC Summary of World Broadcasts*; "Turkmenistan Prepares for CIS Summit and Yeltsin's Visit," *ITAR-TASS*, December 21 1993.

citizenship, and to join the Economic Union.²³ The sequencing and timing suggest that the Turkmen leader may have been promised increased export opportunities if he signed the agreement. Or he may simply have hoped that Yeltsin's administration would be more favorable if he granted it these concessions. Either way, his decision to join these hierarchical structures failed to bring Turkmenistan improved export markets or additional payments. In February 1994, citing lack of payment, Turkmenistan reduced gas deliveries to Azerbaijan, Georgia, and Ukraine.²⁴ Russia followed suit, for the first time cutting its fuel exports to Ukraine. In March, Niyazov concluded two pipeline deals with Iran, perhaps giving the Turkmen president greater confidence in his ability to export gas without surrendering to other Russian-dominated arrangements.²⁵ When Russia presented the CIS Free Trade Area accord in April, Niyazov did not sign. At the same time, following joint negotiations with Russia and Ukraine, Turkmenistan agreed to resume exports in exchange for Ukraine's commitment to pay \$78 million in cash and to send \$200 million worth of goods every 3 months.²⁶

During the next several years, Russia and Turkmenistan frequently fought over gas exports. Turkmenistan had little leverage, however, and Russian leaders continued using their advantage to block Turkmenistan's exports and thus corner the market for Gazprom.²⁷ In spring 2003, Russia apparently used its pipeline leverage to force Turkmenistan to abandon pipeline options that excluded Russia and its firms. Ukraine's President Leonid Kuchma visited Niyazov to discuss the gas exports. Following the meeting, the Turkmen president announced that the three parties, including Russia, needed to draft an agreement that would govern gas supplies and prices for the next 25 years. For the first time, Niyazov began talking about building a second pipeline that would go through Russia and deliver gas to Ukraine. A new one, he argued, would run from western Turkmenistan along the Caspian coast to Russia and then Ukraine.²⁸ As part of the contract, Niyazov agreed to the low and locked-

²³ Sergei Parkhomenko, "Moscow Extends Military Role," *The Independent*, December 24 1993.

²⁴ International Gas Report, 1994; "Azerbaijan: Reduced Supplies of Gas From Turkmenistan," *BBC Summary of World Broadcasts*, February 18 1994; Mekhman Gafarly, "Ukraine May Be Left Without Turkmenian Natural Gas," *Segovdnya, Russian Press Digest*, February 19 1994; "Turkmenistan to Suspend Gas Supplies to Ukraine," *UPI*, February 21 1994.

²⁵ "Iran to Refine Turkmen Oil," *Agence France Presse*, March 17 2004.

²⁶ Lyudmila Glazovskaya, "Turkmenistan To Resume Gas Supplies To Ukraine," *ITAR-TASS*, April 15 1994.

²⁷ "Russia Forces Turkmenistan Out of the CIS Gas Market," *Nezavisimaya Gazeta*, August 7 1997.

²⁸ "Turkmen Leader Praises Gas Cooperation with Ukraine, Russia," *Financial Times Information*, April 14 2003, BBC Monitoring International Reports, <<http://web.lexis-nexis.com/universe>> (January 30 2006).

in price of only \$44 per thousand cubic meters. The parties further agreed that Russia would pay in cash for half of the exports and barter for the rest with Russian-manufactured commodities. This deal allowed Gazprom to continue exporting its gas to high paying European markets while purchasing cheaper gas from Turkmenistan.²⁹

Despite backing down on the price point, Niyazov has remained feisty. After the contract, he accused Moscow of taking without payment \$15-20 billion a year in natural gas, oil, and cotton during the Soviet period. He indirectly accused Russia of complicity in the 2002 alleged assassination attempt against him.³⁰ Again, in December 2004, a Turkmen delegation arrived in Moscow pushing to increase gas prices from the agreed \$44 to \$60 per thousand cubic meters.³¹ Turkmenistan stopped gas exports to Russia after Gazprom refused to pay the higher prices.³² The stoppage forced Ukraine to concede to the \$60 price, a bargain compared to international market prices which were around \$220 to \$250 per thousand cubic meters.³³ In the second half of the year, Turkmenistan agreed to lower the rate back to \$44 provided Ukraine paid in cash.³⁴ As the *Petroleum Economist* noted, "Gazprom is counting on Turkmenistan's gas to fill in a gap in supply until challenging new Russian fields can be tapped"³⁵ Where once Gazprom had too much capacity, it now needs Turkmen gas to maximize its profits. Russia resells Turkmenistan's gas in the Caucasus at about twice what it pays for it, and in Turkey for nearly three times the price.³⁶ This incredible mark-up makes Turkmen gas a critical component of Russia's natural gas strategy in the region. Recognizing this, in January 2006, Niyazov raised Russia's and Ukraine's price to \$60, stating "Should Ukraine and Russia not accept our price, we will wait a year or five."³⁷

Turkmenistan's success as an economically viable state depends on building new pipelines. In 1993, Turkmenistan produced 64.8 billion cubic meters per year. Five years later, its production bottomed out at 13 billion

²⁹ "Russia To Import Turkmen Gas," *RIA Novosti*, April 10 2003.

³⁰ This terrorist act was carried out with the involvement of some big and some small countries, Niyazov had previously accused Uzbekistan; "Big Powers Have 'Strategic Interests' in Turkmenistan – President," *BBC Monitoring International Reports*, October 24 2003.

³¹ "Turkmenistan Gas Export Impasse Takes a New Turn," *News Central Asia*, December 30 2004, <www.newscentralasia.com> (January 30 2006).

³² "Turkmenistan: Naughty and Not Nice," *Petroleum Economist*, March 7 2005.

³³ "Stalemate in Russia-Turkmenistan Gas Price Talks," *News Central Asia*, December 12 2005, <www.newscentralasia.com> (January 30 2006).

³⁴ "Turkmenistan sets new higher price for its gas," *Alexander's Gas and Oil Connections*, December 22 2005, <www.gasandoil.com/goc/news/ntc55107.htm> (May 23 2006).

³⁵ "Turkmenistan: Naughty and Not Nice," *Petroleum Economist*.

³⁶ Guy Dinmore, "US woos Asian energy allies to thwart Russia Gazprom," *Financial Times*, April 29 2006.

³⁷ "Turkmenistan sets new higher price for its gas," *Alexander's Gas and Oil Connections*.

cubic meters. This was largely due to Gazprom squeezing Turkmenistan out of the market. In contrast, Uzbekistan—the other large Central Asian supplier—increased production for years after independence. In 1993, Uzbekistan produced 19.8 billion cubic meters *less* than Turkmenistan. Five years later, with steady annual increases, Uzbekistan had far surpassed Turkmenistan as the largest regional producer after Russia. Turkmenistan has since revitalized its production, at last overtaking Uzbekistan in 2003. Turkmenistan's earlier freefall can be fairly placed on Russia's shoulders. Without significant export routes, Turkmenistan had nowhere to send its gas, making production futile.³⁸

Escaping Russian Opportunism

Given Russia's opportunistic behavior with the pipelines, the Turkmen leader must consider other options. Thus far, he has pursued six proposals, three of which involve Iran, and all of which have largely failed to change Turkmenistan's vulnerability. First, in 1994, Niyazov announced an agreement with Iran to begin a Turkmenistan-Iran-Turkey-Bulgaria gas pipeline. The pipeline was expected to extend 2,500 miles (4,000 kilometers) with an initial capacity of 15 billion cubic meters annually, later to be expanded to 28 billion cubic meters. The partners estimated the cost at \$8 billion, with Iran financing \$3.5 billion to start construction. The U.S. vigorously opposed the concept. In 1995, President Bill Clinton issued an executive order, which President George W. Bush extended in March 2004, prohibiting U.S. companies and their foreign subsidiaries from conducting business with Iran. Furthermore, the U.S. Iran-Libya Sanctions Act of 1996 imposed mandatory sanctions on foreign companies that invested more than \$20 million per year in Iranian oil and natural gas sectors.³⁹ With Russian and U.S. opposition, the project which was scheduled to begin in 1998 has not materialized.⁴⁰

The second rather modest proposal has been the only one to reach fruition. In 1997, Turkmenistan and Iran completed a short connecting export pipeline between their two states. The \$190 million Korpeje-Kord Kuy pipeline includes a 25-year contract under which Iran will purchase between 5 and 6 billion cubic meters annually. With this deal,

³⁸ U.S. Energy Information Administration, September 2005, Central Asia Factsheet, <www.eia.doe.gov> (June 2 2006).

³⁹ U.S. Energy Information Administration, U.S. Department of Energy, "Iran: Background," <<http://eia.doe.gov/cabs/Iran/Background.html>> (February 3 2006).

⁴⁰ Ahmed Rashid, "Vital Statistics: Proposed Gas Pipelines from Turkmenistan," *Drillbits & Tailings* 6, 8 (October 2001), original source: *Taliban: Militant Islam, Oil and Fundamentalism in Central Asia* (New Haven: Yale University Press Books, 2001); James Purcell Smith, "Turkmenbashi's Gas Games: Gas for Power?," *Central Asia-Caucasus Analyst*, June 2003.

Turkmenistan became the first Central Asian state to bypass Russia in exporting natural gas via a pipeline.⁴¹

The third pipeline was a revival of the first proposal. In 1998, Turkmenistan's Minister of Oil and Gas announced that the state was "determined to transfer its oil and gas through Iran."⁴² The proposed pipeline would go south into Iran and then west to Turkey where it could reach worldwide markets. Based on standing policy toward Iran, the U.S. immediately opposed this idea, as it had the 1994 proposal. As with the initial project, Turkmenistan and Iran have made no progress on the pipeline.

The fourth proposal has recently moved closer to actuality. Until 1997, Unocal (which merged with Chevron in 2005) was a major player in Turkmenistan. The American company led the multinational Central Asia Gas Pipeline consortium, designed to evaluate the feasibility of a pipeline that would head south from Turkmenistan, down through Afghanistan, and into Pakistan, the so-called TAP pipeline named after the participating states. Eventually, the pipeline might connect to the increasingly energy thirsty Indian market. Unocal suspended operations in August 1998.⁴³ When the U.S. ousted the Taliban from Afghanistan in 2001, states began again discussing TAP. In July 2003, the Asian Development Bank put the 1,000-mile long project on hold, citing concern about its feasibility, both in terms of the southern route and the projected gas reserve levels.⁴⁴ The Asian Development Bank officially invited India to participate in the venture but India government declined, citing continued conflict with Pakistan.⁴⁵ In February 2006, India reversed itself, announcing that it would join the \$3.5 billion project.⁴⁶ The pipeline is expected to have an annual carrying capacity of 33 billion cubic meters of gas.⁴⁷ While the pipeline will significantly aid Turkmenistan

⁴¹ Nancy Lubin, "Turkmenistan's Energy: A Source of Wealth or Instability?," in *Energy and Conflict in Central Asia and the Caucasus*, Robert Ebel and Rajan Menon, ed. (Maryland: Rowman & Littlefield Publishers, 2000); U.S. Energy Information Administration, U.S. Department of Energy, "Caspian Sea: Background,"

<www.eia.doe.gov/emeu/cabs/Caspian/Background.html> (March 2006).

⁴² "Turkmenistan 'Determined,'" *BBC Worldwide Monitoring*.

⁴³ Unocal, Press Release, "Unocal Reiterates Afghan Position at Annual Meeting of Stockholders," Updated May 20 2002,

<www.unocal.com/uclnews/98news/centgas.htm> (March 14, 2006).

⁴⁴ Nadeem Malik, "Turkmenistan-Afghanistan-Pakistan Pipeline Project Put On Hold For Reassessment," *Financial Times, World News Connection*, July 8 2003.

⁴⁵ "Delhi Spurns TAP Line," *Platts International Gas Report*, August 1 2003.

⁴⁶ "India to Join Turkmenistan, Afghanistan, Pakistan Gas Project," *BBC Monitoring International Reports*, February 20 2006, Financial Times Information, original source PTI news agency, New Delhi, February 20 2006.

⁴⁷ "Trans-Afghanistan Pipeline committee to meet in Pakistan in April," *Interfax News Agency*, Russia and CIS Business and Financial Newswire, February 16 2006 <<http://web.lexis-nexis.com/universe>> (March 2006).

in finding alternate routes, Asian Development Bank specialists have noted that Turkmenistan needs other producing fields to meet the continued and rising demands of South Asia.⁴⁸

The fifth project, supported by Exxon, Mitsubishi, and the Chinese National Petroleum Company, called for building a 5,000 mile (8,000 kilometer) pipeline originating in Turkmenistan and running north through Uzbekistan and Kazakhstan, stretching into China and eventually Japan. In 1998, the pipeline was projected to carry up to 30 billion cubic meters of gas annually, cost \$8-11 billion, and begin operating in 2005.⁴⁹ Although construction never commenced, the project has recently been revitalized.⁵⁰ I discuss this deal in greater detail below.

Finally, the U.S., working with Turkmenistan, Azerbaijan, Georgia, and Turkey, has championed a Trans-Caspian Gas Pipeline that would bypass Russia by going under the Caspian Sea. The 1,200 mile (2,000 kilometer) pipeline would plunge 200-300 meters beneath the Caspian and cost an estimated \$2.5 to \$3.0 billion. The carrying capacity would increase in stages, beginning with 10 billion cubic meters and ramping up to 30 billion cubic meters.⁵¹ In 2000, Turkmenistan withdrew from the project after dismissing numerous proposals and demanding billion dollar financing before the project began.⁵² With the gas pipeline connecting Azerbaijan to Turkey nearly completed, the U.S. recently revived its lobbying efforts for the Trans-Caspian pipeline, which would connect to the Europe-bound one. Kazakhstan's Foreign Minister has expressed his state's support while Turkmenistan remains uncommitted.⁵³

Although Niyazov had reason to believe at the time of Turkmenistan's independence that he could garner sufficient foreign investment to escape Russian domination, he has miscalculated his state's reserves, negotiating complexities, and investor interest and patience for his eccentricities. *Platts Energy Economist* complained that "Niyazov

⁴⁸ Rashid Ashraf, "Turkmenistan-Afghanistan-Pakistan Gas Pipeline Project," *Financial Times Information*, November 24 2005; "South Asia looks north for gas," *Platts International Gas Report*, October 21 2005.

⁴⁹ "China Gas Pipeline Study for Turkmenistan," *New Europe On-Line*, Financial Times Information, November 9 1998 <<http://web.lexis-nexis.com/universe>> (February 3 2006).

⁵⁰ "Working group studies Turkmenistan-China pipe (part 2)," *Interfax*, Central Asia Newswire, December 1 2005 <<http://web.lexis-nexis.com/universe>> (March 2006).

⁵¹ "Outlook for Kazakhstan's Gas Industry," *Asia Pulse*, September 20 2005, <<http://web.lexis-nexis.com/universe>> (June 16 2006).

⁵² The oil pipeline that was part of the original initiative opened in 2005. U.S. Department of State, "United States Welcomes Opening of Caspian Basin Pipeline." <<http://usinfo.state.gov/eur/Archive/2005/May/25-468295.html>> (March 2006); U.S. Department of State, Bureau of South and Central Asian Affairs, "Background Note: Turkmenistan," January 2006 <<http://www.state.gov/r/pa/ei/bgn/35884.htm#econ>> (March 13 2006).

⁵³ "Turkmenistan's promises on gas appear much bigger than its ability to deliver," *Platts Energy Economist*, May 1 2006 <<http://web.lexis-nexis.com/universe>> (June 22 2006).

can quite literally decide on one course of action in the morning, but then on quite another course in the afternoon.”⁵⁴ His focus on Iran has not born fruit, in large part because any venture involving that state will not obtain funding from the West, a situation likely to only worsen given Iran's nuclear ambitions. The Leader of All Turkmen has misunderstood how much Western investors are willing and able to pay, and thus has imprudently played his hand.

What about China?

With the West disenchanted and Iran blocked, Niyazov has again directed his attentions to and hopes on the East. In April 2006, Turkmenbashi visited President Hu Jintao for the first time in 8 years. He arrived with a contract that would tie the two states together via a pipeline stretching to Shanghai and strategically sidestepping Russia. Under the agreement, Niyazov committed his state to deliver to China 30 billion cubic meters of natural gas annually for 30 years. Hu agreed that China would assist in constructing the pipeline, scheduled to be completed in 2009. Harkening back to ancient connections, Niyazov colorfully called the pipeline the Great Silk Road of the 21st Century. The planned pipeline will stretch 2,500 miles (4,000 kilometer), from the Amu-Darya River basin, located on Turkmenistan's northeastern border, passing north through Uzbekistan and Kazakhstan. As part of the deal, China agreed to provide a \$25 million low-interest (3 percent) loan to Turkmenistan for purchasing Chinese drilling equipment.⁵⁵ With China's agreement to pay in U.S. dollars, the deal is certainly preferable to Russia's lock on Turkmenistan's export routes.

If the pipeline can be built, how much natural gas would China require? While the ancient Greeks worshiped mysterious fires fueled by natural gas escaping through the rocks, the Chinese were the first people to use natural gas for worldly purposes. In 500 BC the Chinese devised a system of bamboo pipelines that transported the naturally occurring gas to facilities where it was used to boil away sea water, thus producing salt.⁵⁶ Ironically, modern China has only recently rediscovered the virtues of natural gas, having instead relied heavily on coal and oil. Coal accounts for 66 percent of the total primary energy consumption; oil for

⁵⁴ *Ibid.*

⁵⁵ The Times of Central Asia, "Turkmenistan's Breakthrough to China," April 15 2006, <www.timesca.com/news/AllNews/Turkmenistan/2006/04/15/0082548> (May 11 2006); "Turkmen-Chinese Gas Pipeline to Become New Silk Road – President," *China Energy Weekly*, April 14 2006 <<http://web.lexis-nexis.com/universe>> (June 16 2006).

⁵⁶ Natural Gas Supply Association, "Overview of Natural Gas: History." <<http://www.naturalgas.org/overview/history.asp>> (June 5 2006).

25 percent; and natural gas a scant 3 percent.⁵⁷ By contrast, the world average for natural gas is 24 percent.⁵⁸

Worldwide, China ranks 19th in natural gas consumption and meets all of this demand with domestic resources.⁵⁹ This will soon change. Historically, only cities near production sites used natural gas in significant amounts. Furthermore, China rarely uses natural gas for power generation, but rather to produce fertilizer.⁶⁰ However, as the damaging health and environmental effects of coal, including acid rain on neighbors Japan and Korea, have become impossible to ignore⁶¹ and upon discovering new natural gas reserves, the Chinese government has started converting larger cities from coal to natural gas. Shanghai, for example, now prohibits building new coal power plants, favoring natural gas instead. As the switch occurs and the economy continues its rapid growth, Chinese demand for natural gas will increase dramatically.

The Chinese government anticipates a 7 percent annual growth rate in natural gas use between 2000 and 2020. During that 20-year period, according to the Energy Research Institute of China, total energy use will double, with natural gas fueling much of the growth.⁶² Table 1 shows 1997 natural gas use in China as well as projected demand for 2020. The projected figures suggest a nearly 1,000 percent increase in natural gas consumption between 1997 and 2020.⁶³ Natural gas will then account for about 12 percent of total primary energy consumption, compared to the current 3 percent.

China has rapidly built internal pipelines to transport the higher volumes throughout the state. By the end of 2003, the total length of gas pipelines reached 13,000 miles (21,000 kilometers). By 2010, China

⁵⁷ Kensuke Kanekiyo, "Diversifying Energy Sources of Northeast Asia: Role of Government Initiative toward Sustainable Development," March 2004, presented at the 8th International Conference on Northeast Asian Natural Gas Pipeline, Shanghai, China, <<http://eneken.ieej.or.jp/en>> (June 2006).

⁵⁸ Shulin Su, "The Prospect of the Development of China's Natural Gas Industry," September 20 2004, <www.cnpc.com.cn/english/xwygg/speeches/200507220005.html> (May 26 2006).

⁵⁹ U.S. Energy Information Administration, "Top World Oil Consumers, 2004" and "Top World Oil Net Importers, 2004" <www.eia.doe.gov/emeu/cabs/topworldtables3_4.html> (May 23 2006). The CIA's World Fact Book lists slightly different numbers, though the rankings are the same.

⁶⁰ Kaora Yamaguchi and Keii Cho, "Natural Gas in China," Institute of Energy Economics, Japan, August 2003, <<http://eneken.ieej.or.jp/en>> (March 3 2006).

⁶¹ China has 16 of the world's 20 most-polluted cities, according to the World Bank, as reported by Oster and Barta (March 3 2006).

⁶² Yamaguchi and Cho, "Natural Gas in China."

⁶³ In 2002, the Chinese government anticipated a demand of 96 billion cubic feet in 2010. By fall 2004, the government had already increased this estimate to 120 billion cubic meters (see Su, p.2 and Yamaguchi and Cho, "Natural Gas in China," p. 4). Thus, the 2020 estimate may well be too low as well.

anticipates the long-distance pipeline structure will stretch a total of 22,000 miles (36,000 kilometer), thus meeting the state's transportation demands for both domestic and imported gas.⁶⁴

China's escalating need will come amid a worldwide increase in demand. Of the three major fuels (oil, coal, and gas), the U.S. Energy Information Agency expects natural gas to increase by the largest percentages, with demand growing by 2.3 percent annually between 2002 and 2025, compared to an annual increase of 1.9 percent for oil. Worldwide, demand is projected to increase by 70 percent over the 24 year period. In addition to Asia, most of the increase will be in the former Communist states in Eurasia and Eastern Europe.⁶⁵

Table 1: China's Actual and Projected Natural Gas Demand, by Sector

Demand by Sector (billion cubic meters/year)		
	1997	2020
Power	2	81
Residential use	2	50
Chemical/Fertilizer	8	33
Industry & Other	7	40
Total	19	204

Source: International Energy Agency, *Developing China's Natural Gas Market, 2002*.⁶⁶

China has thus far met demand by increasing local supply. In 1995, domestic production totaled 18 billion cubic meters; this number jumped to 28 billion cubic meters only five years later.⁶⁷ Production has continued to increase. In 2003, China produced 34 billion cubic meters, showing an average 7.2 percent annual increase since 2000. Despite these remarkable advances, China will soon incur a shortfall. According to Shulin Su, Vice President of China National Petroleum Corporation, which produces about 75 percent of the state's natural gas, China will need to import 40 billion cubic meters in 2010, with that figure doubling to 80 billion cubic meters in 2020.⁶⁸

Despite the projected demands and recently signed accord, six factors justify skepticism about the Turkmen-Chinese deal. First, the timeline may be "hopelessly optimistic."⁶⁹ While many pipeline deals in Central

⁶⁴ Su, "The Prospect of the Development of China's Natural Gas Industry."

⁶⁵ U.S. Energy Information Agency, *International Energy Outlook, 2005*.

⁶⁶ Reproduced in Kaora Yamaguchi and Keii Cho. August 2003. "Natural Gas in China." Institute of Energy Economics, Japan. <<http://eneken.iecej.or.jp/en>>. Original source Energy Research Institute, China.

⁶⁷ Yamaguchi and Cho, "Natural Gas in China."

⁶⁸ Su, "The Prospect of the Development of China's Natural Gas Industry."

⁶⁹ "Turkmenistan/China economy: Gas accord—just hot air?," *EIU ViewsWire*, April 5 2006.

Asia have been discussed and even some contracts signed, few have been brought to fruition and virtually none of them on time. With 2009 only 3 years away, it seems unlikely that a 2,500 mile pipeline that has no clear funding source will be completed in time. In 2000, when the pipeline was first being discussed, Niyazov declared it would take a decade to implement the project.⁷⁰ Furthermore, despite grand proclamations, Niyazov has repeatedly bedeviled his own ambitions for greater international assistance critical for producing and exporting Turkmenistan's natural gas. Unless he learns from these mistakes, this deal, too, will be delayed and possibly abandoned.

Second, Turkmenistan's reserve levels remain unknown, with specialists lowering their earlier estimates. For example, a 1996 *Financial Times* article reported that international firms "descended on" Turkmenistan with competing pipeline proposals to "unlock the world's third largest gas reserves."⁷¹ By 2004, the *Oil & Gas Journal* ranked Turkmenistan as 13th in reserves, with 74 trillion cubic feet instead of the 100 trillion reported in earlier analyses.⁷² The U.S. Energy Information Administration dismisses the Caspian Sea countries as currently "relatively minor world oil and natural gas producers, struggling with difficult economic and political transitions,"⁷³ and the CIA's *World Factbook* ranks Turkmenistan as only 19th in proved reserves.⁷⁴ Niyazov's closed regime prevents outside experts from independently and accurately measuring reserve levels. Given the president's penchant for hyperbole, industry specialists are understandably circumspect.

A third reason for skepticism is Turkmenistan's over-commitment. When one adds up Niyazov's various commitments, the state would have to export as much as 190 billion cubic meters in 2010; this includes 50 to Russia, 30 to China, 14 to Iran, 40 to Ukraine, 30 to India/Pakistan, and 30 to Europe via the Caspian pipeline.⁷⁵ With last year's total production at 63 billion cubic meters,⁷⁶ Turkmenistan would have to more than triple its production to fulfill these export commitments. However, given the failure of almost all of Niyazov's many proposals, one could reasonably

⁷⁰ "China-Turkmenistan gas pipeline discussed in Ashkhabad," *Interfax*, July 12 2000.

⁷¹ Sander Thoenes, "Oil Groups Vie to Pipe Turkmen Gas Wealth," *Financial Times*, March 20 1996, <<http://web.lexis-nexis.com/universe>> (June 14 2006).

⁷² "Worldwide Look at Reserves and Production," *Oil & Gas Journal* 102, 47 (December 20, 2004): 22-23; American University Trade and Environment Database, "Turkmen Oil and Natural Gas: The Viability of Delivering Prosperity to Global Markets," case number 385, <www.american.edu/projects/mandala/TED/turkmen.htm> (January 30 2006).

⁷³ U.S. Energy Information Administration, "Caspian Sea: Background."

⁷⁴ U.S. Central Intelligence Agency, *World Factbook*. "Rank Order—Natural Gas—Proved Reserves," <www.cia.gov/cia/publications/factbook/rankorder/2179rank.html> (June 14 2006).

⁷⁵ "Turkmenistan's Promises," *Platts Energy Economist*.

⁷⁶ U.S. Department of State, "Background Note: Turkmenistan".

expect some of these deals to collapse, making it possible for Turkmenistan to fulfill a minority of them. In addition, with other supplying states helping fill the pipelines, they may still be sound investments.

The fourth factor warranting concern is China's slow progress in reducing its dependence on coal burning facilities and correspondingly increasing natural gas consumption. In an 18-month period ending in July 2005, the Chinese government approved barely any natural gas power plants. Of the 168 approved plants, nearly all will burn coal.⁷⁷ China's sluggish conversion almost certainly comes from rising gas prices. The state's inability to secure reliable sources at low prices accounts for some cities and enterprises opting to stick with coal. Turkmenistan, and others, may be able to make the difference. In addition, despite China's slow conversion rate, natural gas now fuels 2.1 percent of power plants, compared to virtually none only a few years ago.⁷⁸

Fifth, Turkmenistan has generally played a weak role in Chinese international relations, potentially making close cooperation a more distant goal. Bilateral trade has remained minimal, particularly when considering China's economic might and the proximity of the two states. Among all China's trading partners in 2005, Turkmenistan ranked 130th, just behind Mozambique.⁷⁹ Turkmenistan's trade levels with the EU, the U.S., and Turkey far outweigh those with China, as shown in Tables 2a and 2b.

Table 2a: Turkmenistan's imports (millions of dollars)

Origin	1999	2000	2001	2002	2003	2004
China	7	12	31	87	79	85
EU (25)	220	148	224	313	375	507
Turkey	107	119	105	118	170	215
U.S.	18	73	248	47	34	295

Table 2b: Turkmenistan's exports (millions of dollars)

Destination	1999	2000	2001	2002	2003	2004
China	2	4	1	1	4	14
EU (25)	264	204	141	183	323	616
Turkey	67	98	72	99	124	176
U.S.	9	30	51	63	81	87

Sources: World Trade Organization⁸⁰

⁷⁷ Shai Oster and Patrick Barta, "China Stumbles in Attempt to Cut Oil and Coal," *Wall Street Journal*, March 3 2006.

⁷⁸ *Ibid.*

⁷⁹ My thanks to Dr. Hsiu-Ling Wu, at Tamkang University in Taipei, Taiwan, for providing updated and detailed customs data to me via several email exchanges, May 29-31, 2006.

⁸⁰ "International Trade Statistics 2005." Trade by Region, Table III.48 and Table III.49, p. 77-78 <www.wto.org/english/res_e/statis_e/its2005_e/its05_byregion_e.htm> (April 18

China's focus on border trading does nothing to improve low trade levels with Turkmenistan.⁸¹ Similarly, Turkmenistan has benefited little from China's "Step Out" program, which urges enterprises to invest overseas.⁸² Although Central Asian states have received some foreign investment from China, Kazakhstan has been the primary beneficiary. Most notably, in a remarkable achievement that defied many observers' expectations, on July 31, 2006, Kazakh crude oil flowed to China via a newly constructed pipeline that had been ten years in the making.⁸³ In contrast, during the ten-year period from 1992 to 2002, Turkmenistan had only 2 projects with China, worth a total of \$300,000.⁸⁴ Despite this slow start, investment has recently accelerated. By early 2003, China had invested in 19 projects in Turkmenistan, valued at \$210 million, the majority dedicated to the oil and gas sector.⁸⁵ As of July 2005, Turkmenistan reported that China was involved in 37 investment projects valued at \$383 million.⁸⁶ This trend shows promise for a tighter Chinese-Turkmen economic relationship.

The final factor complicating the picture is Turkmenistan's need to cooperate with Uzbekistan and Kazakhstan whose lands separate Turkmenistan from China. Since independence, relations between Uzbekistan and Turkmenistan have often been tense. Disputes over water rights and treatment of ethnic minorities have persisted. These ongoing clashes were dramatically overshadowed when Niyazov charged the Uzbekistan government with attempting to assassinate him. Furthermore, Uzbekistan competes with Turkmenistan as a natural gas supplier, raising questions about its interest in advancing its southern neighbor's exports to high demand China. In addition, as noted above,

2006; "International Trade Statistics 2002," Trade by Region, Table III.53 and Table III.54, pp. 78-79, <www.wto.org/english/res_e/statis_e/its2002_e/its02_byregion_e.htm> (June 8 2006). Statistics for the EU represent the EU-15 for 1999-2001 and the EU-25 for 2002-2004.

⁸¹ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration Between China and the Five Central Asian Countries," *Europe-Asia Studies* 56, 7 (2004): 1070-1071.

⁸² Yuen Pau Woo and Kenny Zhang, "China Goes Global: The Implications of Chinese Outward Direct Investment for Canada," Presented at the Canadian Economics Association annual meeting, May 26-28 2006, <<http://economics.ca/2006/papers/0892.pdf>> (June 1 2006).

⁸³ "Kazakh Crude Oil Flows Into China," *Financial Times Information Limited - Asia Intelligence Wire*, July 31 2006.

⁸⁴ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration Between China and the Five Central Asian Countries," 1073-1075. (Original source is the *Almanac of China Foreign Economic Relations and Trade, 1993-2003*)

⁸⁵ "China upbeat about cooperation with Turkmenistan in oil, gas," *ITAR-TASS*, February 16 2003.

⁸⁶ "Chinese delegation visit to Turkmenistan results in signing of a number of bilateral documents," *Turkmenistan.ru*, July 20 2005, <www.turkmenistan.ru> (April 18 2006).

Kazakhstan and Uzbekistan have been more actively engaged with China than Turkmenistan.⁸⁷ These closer relations might predispose China to working with these states rather than Turkmenistan. Also, Uzbekistan ranks among the most corrupt states worldwide, which may translate into delays so substantial and costly as to break the deal.⁸⁸ Finally, in a dramatic geopolitical shift, Uzbekistan recently abandoned its arms-length policy toward Russia and joined the Russian designed and dominated Eurasian Economic Community.⁸⁹ This move might signal a shift toward Russia and away from China, giving Uzbekistan little reason to cooperate on a pipeline to China.

Several factors suggest that Turkmenistan may be able to work around these complications with its neighbors. First, the states' leaders recently patched up their differences while sipping champagne.⁹⁰ Second, Turkmenistan and Uzbekistan currently have a different client base. With the Tashkent-Bishkek-Almaty pipeline as Uzbekistan's main conduit, Kyrgyzstan and southern Kazakhstan import much of this state's natural gas. Turkmenistan's clients have been to the West and South. In the immediate future, then, they are not direct competitors. Third, Uzbekistan has recently signed several major joint ventures with Gazprom in which the Russian gas giant will develop Uzbekistan's gas fields, export its gas, and build new export pipelines.⁹¹ Although Russia has focused on moving this gas to Europe, if lucrative markets develop in China as expected, Gazprom would want in on the deal and could take Uzbekistan with it. Thus, a Turkmenistan deal does not cut out Uzbekistan. Fourth, and related to the previous point, China's expected demand for natural gas is so great that both states may well be needed to satisfy it, thus reducing potential rivalries.

⁸⁷ Qin Jize, "Uzbekistan, China ink partnership treaty," *China Daily*, May 26 2005, Embassy of the Republic of Uzbekistan in China, <www.uzbekistan.cn> (May 26 2005).

⁸⁸ The Corruption Perceptions Index ranks Uzbekistan 137 out of 159 states; Turkmenistan is worse, ranking in the bottom five. Internet Center for Corruption Research, "The 2005 Corruption Perceptions Index," <www.icgg.org/corruption.cpi_2005_data.html> (June 21 2006).

⁸⁹ Uzbekistan has thus far declined to join Russia's military alliance. Ben Wetherall, "Russia Upholds Uzbek Status Quo and Inks Gas Deal, Uzbekistan Admitted to Regional Alliance," *World Market Analysis*, January 26 2006, <<http://web.lexis-nexis.com/universe>> (June 13 2006); Sergei Blagov, "Uzbekistan Sets Limits for Cooperation with Russia," *Eurasianet*, February 25 2006, <<http://web.lexis-nexis.com/universe>> (June 13 2006).

⁹⁰ "Turkmen, Uzbek Leaders Declare End to Differences," *Agence France Presse*, November 19 2004, <<http://web.lexis-nexis.com/universe>> (June 22 2006).

⁹¹ "Uzbekistan to Set Gas Price to World Practice, Offers New Resources," *Russia & CIS Oil and Gas Weekly*, May 24 2006, <<http://web.lexis-nexis.com/universe>> (June 13 2006).

Impact on China-Russia Relations

If Turkmenistan and China can overcome the hurdles they face with this pipeline deal, Turkmenistan would break free of Russia's monopoly on its gas exports. Without this critical lever, Russia would no longer be able to dictate how much gas Turkmenistan can export, where those exports can go, and how much it can charge for the gas. China's purchases may well diminish how much gas Turkmenistan then sells to Russia. In addition, with a second client, Niyazov would have the negotiating power to demand higher prices from Russia. Since Russia resells Turkmenistan's gas at two to three times the price it pays for it, the deal with China would seriously impact Russia's foreign currency earnings as well as diminishing the strategic value that Gazprom plays in the region. Given the important role that Turkmen gas has been playing, Russian President Vladimir Putin and his administration have compelling reasons for blocking the deal. Whether they will attempt to stop the deal and if so, whether they will succeed, depends on the outcome of a complicated and evolving relationship between China and Russia.

The two great powers are engaged in a complex courtship that involves overt cooperation combined with underlying competition. The two states are the founders and forces behind the Shanghai Cooperation Organization (SCO), which includes four of the five Central Asian states, Turkmenistan being the outsider. The SCO has claimed all arenas within its purview. According to the founding Declaration, its goals are "to strengthen mutual trust, friendship and good-neighborliness between the member States; to encourage effective cooperation between them in the political, trade and economic, scientific and technical, cultural, educational, energy, transport, environmental and other spheres; and to undertake joint efforts for the maintenance of peace, security and stability in the region, and the building of a new, democratic, just and rational international political and economic order."⁹² Among many proposals is one to increase energy cooperation, including exploration and pipeline construction.⁹³ Although Turkmenistan is not an SCO member, if the organization became a critical regional player, Niyazov may well reconsider his position and join hands with the others.

To date, the real energy cooperation game is occurring outside the SCO framework. China desperately needs resources for its expanding economy, and Russia is positioned to deliver the goods. In bilateral agreements, Russia and China have signed several energy deals, most recently during a trip Putin made to Beijing in March 2006. Just one

⁹² "Declaration on the Establishment of the Shanghai Cooperation Organization," <http://missions.itu.int/~kazaks/eng/sco/sco02.htm> (July 13 2006).

⁹³ Shanghai Cooperation Organization, "Chronology of Main Events," <http://www.sectsc.org/html/00030.html> (August 1 2006); and Richard Weitz, "Reading the Shanghai SCO Summit," *Central Asia-Caucasus Analyst*, July 12 2006.

month before Niyazov announced his deal, Russia and China had agreed to build a 1,700 mile (2,800 kilometer) pipeline from Russia's Altai field in Western Siberia to China. China contracted Russia to supply 30 billion cubic meters a year by 2020; initial gas flow would begin in 2011, two years after the Turkmenistan pipeline is scheduled to open.⁹⁴ While the initial flows are lower than those expected from Turkmenistan, the Russian pipeline would be shorter and built on existing paths and structures, raising the likelihood it will be completed. In addition, the two states agreed to send gas to China from Eastern Siberia, also at about 30 billion cubic meters a year; fewer details have been released on this deal. Each pipeline is expected to cost about \$5 billion.⁹⁵

Despite the grand ambitions and proclamations for integration, China has the ability to challenge and upset some of Russia's most important strategic interests in Central Asia, most notably control over oil and gas production and flows. While Turkmenistan has the greatest need for multiple export routes, all of the Central Asian energy producers benefit from alternatives to Russia. With their massive and expanding market, the Chinese are thus popular partners. In the case of Turkmenistan, if Russia cannot dictate the prices and volumes of natural gas exports, it loses some of its own power in the region. Furthermore, deals with Turkmenistan and others may diminish the quantity of Russian exports to China, as well as the price that Russia can charge.

The Russians clearly recognize the threat and have responded accordingly. One month after the Turkmen-Chinese accord, Gazprom leaders met with the Vice President of China National Petroleum Corporation. At the conclusion of the meeting, they announced that "China confirmed the priority of supplying gas from Russia to meet China's growing gas demand." The statement emphasized that China would give priority to Russian natural gas over other sources.⁹⁶

Chinese leaders can choose to challenge Russia in the region or to collude with it to gain greater benefits from the smaller states. For now, the Chinese are multiplying their options, reaching out to several Central Asian sources, while simultaneously reassuring Russia that it is the first among the partners.

⁹⁴ "China to give priority to Russia over other CIS gas suppliers," *Russia & CIS Business and Financial Newswire*, May 12 2006.

⁹⁵ "Russia and China Sign Gas Agreements," *The Russian and Oil Gas Report*, March 24 2006.

⁹⁶ "China to give priority to Russia over other CIS gas suppliers," *Russia & CIS Business and Financial Newswire*, May 12 2006.

Conclusions

Turkmenistan's President and dictator-for-life, Saparmurat Niyazov, has pursued a foreign policy focused on escaping Russia's stranglehold on its natural gas exports. After frustrations with the West and failed deals with Iran, Niyazov is again looking east toward China. This shift occurs as China's demand for natural gas is expected to increase dramatically over the next 20 years, giving China the potential to dominate the demand-side of the market. In April 2006, Turkmenistan and China agreed to build a 2,500 mile pipeline to move Turkmen natural gas to the Chinese market. With Russian delays in moving forward on pipelines to China and Russian aggressiveness toward Turkmenistan, both states have reason to make the pipeline a reality.⁹⁷ Each would secure alternatives to Russia: China, a gas-rich supply alternative, and Turkmenistan, a gas-hungry demand alternative.

However, as elaborated above, several hurdles stand in the way, including high costs, uncertain reserve levels, unrealistic commitments, Niyazov's quirky personality, other transit states' reluctance to grant access, and China's slow progress in converting from coal to natural gas. These combined hurdles will certainly make it impossible to meet the stated timelines. Still, the involved states have strong incentives to clear the hurdles, even if at a lower level and arriving late.

Niyazov has committed to deliver more natural gas than his state can reasonably produce. Clients include Russia, China, Iran, Ukraine, India, Pakistan, and unnamed European states. Having failed to secure necessary foreign direct investment, Niyazov now seems prepared to sign deals with anyone who will proffer them. Since none of these deals ask Turkmenistan to put up cash, the dictator appears prepared to let other factors determine which will be completed. The governments and energy firms of Russia, China, Europe, and the United States will then play critical roles, as they tout their own favorite options and are then tested to solve the technological and fiscal challenges that each route faces.

This piece began with a puzzle: why is Turkmenistan in the same bed of Russia Resisters as the Baltic states, the former being a prime example of a dictatorship and the latter group synonymous with post-Communist states that have fully transitioned to democracy and capitalism? The Baltic states were known for their strong distaste for the Soviet system and for their pro-democracy movements, making their choice to flee Russia no great surprise. The same cannot be said of Turkmenistan; other factors must explain its refusal to integrate further

⁹⁷ For more on the tensions between Russia and China, see Stephen Blank, "China, Kazakh Energy, and Russia: An Unlikely M \acute{e} nage \grave{a} Trois," *The China and Eurasia Forum Quarterly* 3, 3 (November 2005): 99-109; and Niklas Swanström, "An Asian Oil and Gas Union: Prospects and Problems," *The China and Eurasia Forum Quarterly* 3, 3 (November 2005): 81-97.

with Russia. Most importantly, the state's economic vulnerability to Russian pipelines and Russia's opportunistic behavior have pushed Turkmenistan away from its former leader. In addition, the state's vast resources and geographic position has led Niyazov to believe that he could obtain economic independence. If he cannot, he may have to change strategies. China's ability and willingness to produce an expensive and extensive pipeline will in part determine whether Turkmenistan gets pulled back into the bear's embrace.