

The Energy Security in Central Eurasia: the Geopolitical Implications to China's Energy Strategy

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ABSTRACT

The competition among great powers over energy resources and pathways has gotten increasingly intense in recent years, not least in Central Eurasia (CEA). This article will explore the evolution of energy security that has taken place lately and the accompanying political, economic, and even military factors that improve or impede international energy cooperation in the Caspian and Central Eurasian region. It will also make an assessment of China's geopolitical understandings of energy security in CEA, its implications for China's energy strategy, and the future of Central Eurasian energy geopolitics.

Keywords • energy security • China • geo-politics • Central Eurasia • Caspian Sea

Since the beginning of the 21st century competition among great powers over energy resources and pathways have gotten remarkably intense, promoting rapid growth in energy prices and geopolitical considerations involving energy security. Central Eurasia (CEA), forming the heart of the crescent Eurasian space, has been of particular interest to the great powers due to its vast energy resources and strategic location. Geographically, Central Asia is here defined to include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, whereas the CEA consists of the five Central Asian countries plus the three South-Caucasus countries of Armenia, Azerbaijan and Georgia. The CEA states are located to the east and west of the oil and natural gas-rich Caspian Sea. Kazakhstan and Azerbaijan have the biggest oil-reserves and are the largest export countries, although Turkmenistan's oil and gas exports have been growing rapidly in recent years as well.

Indeed, Central Eurasia is a region where the effects of geopolitics and great-power competition have perhaps been more clearly seen than elsewhere. Ethnic and religious conflicts, domestic political turmoil, energy competition among big oil and natural gas companies, and strategic positioning have been a recurrent feature of great-power

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competition in the region. This, in turn, has made CEA a pivot in the new world order, and especially so when seen in context of its rich energy reserves and the growing world energy demand. As stated in a report by the U.S. National Intelligence Council: “Growing demands for energy—especially by the rising powers—through 2020 will have substantial impacts on geopolitical relations.”²

As such, any study on energy can no longer be limited solely to a discussion of supply and demand in the energy world market, but must also seek to examine international energy security from geopolitical and geoeconomic perspectives. Here, major powers have invested a lot of time, money, and effort together with diplomatic and military muscle to win control over major foreign stockpiles and transits of energy. In this context, major oil and gas-importers like the U.S., Europe, China, and India are paying close attention to the CEA region, particularly Kazakhstan, Turkmenistan, Iran and Azerbaijan, whereas other regional powers like Russia are striving to retain influence over these strategic resources.

This article will explore the evolution of energy security that has taken place in recent years and the accompanying political, economic, and even military factors that improve or impede international energy cooperation in the Caspian and Central Eurasian region. It also strives to make an assessment of China’s geopolitical understandings of energy security in CEA, its implications for China’s energy strategy, and the future of Central Eurasian energy geopolitics.

The Geopolitical Competition Over Energy and Security in Central Eurasia

Energy and its Geopolitical Importance

According to the BP Statistical Review of World Energy (2004), proven oil reserves of the five Caspian littoral states total 216.4 billion barrels, while total gas reserves are estimated at 2819.2 trillion cubic feet. In terms of percentages, the five Caspian littoral states have about 18.8 percent of the world’s total proven oil reserves and 45 percent of the world’s total proven gas reserves.³ Officials and analysts from the U.S. Energy Information Agency stated in 2004 that the world’s unproven oil reserves are expected to double in the next two decades, where states located in

² “Mapping the Future,” Report of the US National Intelligence Council’s 2020 Project, NIC December 2004, p. 59.

³ Quotes from Mehdi Parvizi Amineh and Henk Houweling, “Caspian Energy: Oil and Gas Resources and the Global Market,” in Mehdi Parvizi Amineh and Henk Houweling, ed-, *Central Eurasia in Global Politics: Conflict, Security and Development* (Koninklijke Brill NV: Leiden, the Netherlands, 2005), 77-78.

the former Soviet space will account for a projected fourfold increase.⁴ As such, there should be no doubt that total Caspian oil and gas reserves are set to be adjusted upwards in the coming years, where the major share of this increase will flow from Kazakhstan, Turkmenistan and Azerbaijan. Meanwhile, the proportion of the Caspian region's energy exports as a share of total world energy supply has increased. In 2001, the five Caspian littoral states exported a total of about 9.2 trillion barrels of oil and 12.05 trillion cubic feet of natural gas to the international market, but exports are estimated to increase to 31.5 trillion barrels of oil and 41.5 trillion cubic feet of natural gas by 2010.⁵

Geopolitically, the CEA region belongs to what Mackinder designated as the "heartland" and is the center of Zbigniew Brzezinski's "black hole" of power, equating to "the Eurasian Balkans" implying a major risk of ethnic conflicts and great-power regional rivalry.⁶

Yet despite this strategic significance, the U.S.' geopolitical assessment of the CEA region in late 1990s has been left basically unchanged since George W. Bush took office in early 2001, although it has lately undergone major revisions, especially after September 11. As argued by Svante E. Cornell:

"With strategic access crucial to the prosecution of the war [on terror], the republics of Central Asia took center stage in the most important conflict to confront the United States in decades. Although less prominently covered in the media, the states of the South Caucasus were equally vital; situated between Iran and Russia, they were the only practical corridor connecting NATO territory with Central Asia and Afghanistan."⁷

However, the emerging strategic landscape of the region has not only affected the interests of the U.S., but also the national interests of neighboring countries, such as Afghanistan, China, Iran, Pakistan, Turkey and even Ukraine, as well as outsiders like the European Union, India, and Japan. All of these contest for influence in one way or another,

⁴ Guy F. Caruso and Linda E. Doman, "Global Energy Supplier and the U.S. Market," *Economic Perspectives* (May 2004).

⁵ More information about Caspian Sea region oil and gas production and export, see Mehdi Parvizi Amineh and Henk Houweling, "Caspian Energy: Oil and Gas Resources and the Global Market", pp. 87-88.

⁶ Zbigniew Brzezinski, *The Grand Chessboard: American Primary and Its Geostrategic Implications* (Basic Books, 1997) chapter 4 and chapter 5. Brzezinski also regards Afghanistan, Iran and Turkey as part of the Eurasian Balkans in this book.

⁷ Svante E. Cornell, "Eurasia Crisis and Opportunity," *The Journal of International Security Affairs* 11 (Fall 2006): 29.

although some are more successful and have more leverage over the CEA states than others.

Great-Power Rivalry in CEA

This great-power rivalry which has primarily manifested itself in the early 21st century has penetrated CEA affairs politically, economically and militarily to the extent that it has been described in terms of a “New Great Game”. This game was intensified by the precarious situation that the CEA states found themselves in as the Soviet Union disintegrated. All CEA states faced major problems in achieving domestic social stability and economic growth. This, in turn, created a power-vacuum in CEA igniting geopolitical turmoil over the vast energy resources found in the post-Soviet successor states. As Mehdi Parvizi Amineh, an expert on CEA energy security notes:

“With the end of Soviet control over CEA and Caspian region natural and human resources, there emerged a New Great Game amongst the many players interested in access to the region’s oil and gas reserves (...) This mixture of changing world politics suggest that the post-Soviet New Great Game for the influence and control of CEA and the Caspian resources is far more complex than the 19th century competitive colonization of the region by the Anglo-Russian Powers.”⁸

This has sparked interest from Beijing to Washington, New Delhi to Moscow, and Tokyo to Brussels. National leaders and corporate executives have today stepped up their efforts to gain control over major sources of oil and natural gas in Central Eurasia. Events such as the 1973 oil crisis,⁹ a rapidly growing world demand, increasing dependency on the Middle East, and the collapse of the Soviet Union have intensified this race to secure alternative and diversified supplies.

Indeed, following the end of the Cold War, U.S. strategists began to pay more attention to the CEA region, and the Clinton Administration showed particular interest in CEA’s energy and economic potential. The current Bush government has also promoted massive and active

⁸ Mehdi Parvizi Amineh, *Globalization, Geopolitics and Energy Security in Central Eurasia and the Caspian Region* (The Hague: Clingendael International Energy Program, 2003), 209.

⁹ A central reason for “energy security” was that the 1973 oil crisis represented a triple threat: day-to-day life was disrupted; there was an economic threat; and there was a political threat. See John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, Energy and Environment Programme (The Royal Institute of International Affairs and Earthscan Publications Ltd., 2001), 176.

involvement in CEA affairs both to restrict China's geopolitical rise and influence in the region while simultaneously coveting Russia's Central Asia "backyard". This was perhaps primarily seen in United States' support for the color revolutions that swept the region in the past few years, starting with the "Rose revolution" in Georgia in 2003, the "Orange revolution" in Ukraine in late 2004, and the "Tulip revolution" in Kyrgyzstan in early 2005. The domestic turmoil created by these revolutions also alerted the member states of the Shanghai Cooperation Organization (SCO) (China, Russia, Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan) which demonstrated growing concern over this turn of events. Yet, the color revolutions were followed by another incident which perhaps proved to have even more profound influence over the regional geopolitics.

In May 2005, violence struck the Uzbek town of Andijan as insurgents freed a group of businessmen from a prison. The event is surrounded by uncertainty of what actually happened, but it is clear that it involved a major bloodshed that the Uzbek security forces were partly responsible for. The violent suppression of the uprising led to massive condemnation from the U.S. and other Western powers, which ultimately led the Uzbek government to demand a forced U.S. withdrawal from the Karshi-Khanabad airbase which it used for its Afghanistan operation. Soon after, a SCO statement was also delivered demanding the U.S. to set a deadline for withdrawal of its bases from Central Asia as the situation in Afghanistan was assumed to have stabilized.

This event, combined with this year's stalemate in the Iranian nuclear crisis, also illustrated a dilemma for American foreign policy vis-à-vis Central Eurasia. As one expert noted,

"...in the space of 12 months, Russia and China have managed to move the pieces on the geopolitical chess board of Eurasia away from what had been an overwhelming U.S. strategic advantage, to the opposite, where the U.S. is increasingly isolated. It's potentially the greatest strategic defeat for the U.S. power projection of the post-World War II period."¹⁰

Indeed, the geopolitical setbacks have prompted a policy review in Washington. In October 2005, Secretary of State Condoleezza Rice visited the Central Asian capitals to assess the new direction of U.S. diplomacy. After returning, Rice ordered a revamping of the Central Asia desk in the State Department by merging it with the South Asia Bureau while simultaneously promoting the "Greater Central Asia" concept to

¹⁰ F William Engdahl, "The US's geopolitical nightmare," *Asia Times Online* (May 9 2006).

avoid U.S.' marginalization in the CEA region. Considering the unprecedented level of influence the U.S. had built up in South Asia, it was calculated that the South Asian countries would serve its interests positively if only they could be persuaded to play a proactive role in Central Asia. Similarly, it was assumed that the Central Asian states may also rethink their deepening involvement in the SCO if other options are provided.¹¹

This will however be met with resistance, not least with regards to energy. Currently, the SCO members are pushing energy cooperation forward among themselves which will surely affect the U.S.' geopolitical role in Central Asia. A notable feature of the 2005 SCO Astana summit statement was that emphasis was also placed on resisting interference of outside forces by putting forward new geopolitical principles for CEA affairs. Moreover, at the 2006 SCO summit in Shanghai, all member states agreed to give priority to cooperation in the fields of energy and to "play an independent role in safeguarding stability and security in this region". Based on the SCO's rapid institutionalization, great-power competition is set to increase in the CEA in the years to come.

For centuries, Russia's control of the CEA region has had long-term and profound geopolitical implications for other great powers. Even though Moscow used natural gas as leverage to exert pressure on Ukraine in the winter of 2005 and has put increasing emphasis on energy diplomacy, its foreign policy towards these countries is not driven primarily by hopes of recapturing great oil wealth, but by geopolitical dominance. As some experts have noted:

"Russian interests in the region are both broader and simpler. At the minimum, Russia has an interest in preventing these newly independent countries from falling under the dominance of any other regional power, for example, Turkey and Iran, or becoming a new frontier for the so-called hegemony of the United States. At the maximum, Russia would seek dominant influence over these countries' domestic as well as foreign policies.Energy is a means, not an end. Russia also has many cards to play short of military action."¹²

Russian President Vladimir Putin has carried out diplomatic, economic and military measures to counterbalance the U.S.' growing

¹¹ For more elaboration of US' strategic thinking of South Asia in "Greater Central Asia", please see M K Bhadrakumar, "'The Great Game' comes to South Asia," *Asia Times Online* (May 24 2006).

¹² John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, pp. 185-186.

geopolitical role in CEA, where one means to do this has been through the continuous strengthening of cooperation within the SCO.

With regards to China, it has gradually given CEA increased geostrategic significance since the end of the Cold War. As the U.S. established a military presence in Central Asia and the United States' carried out preventive military activities against China in East and South Asia by strengthening the U.S.-Japan alliance, deploying more strategic submarines and other deterrent weapons, and ingratiating with the Indians to counterbalance China's rising power, China's leadership has faced tougher geopolitical competition over Central Asia. Considering that China shares 3000 kilometers of borders with the three Central Asian countries of Kazakhstan, Kyrgyzstan and Tajikistan, its importance for China's stability should not be underestimated. Besides, China's thirst for oil and natural gas to support its booming economic growth requires Beijing to develop close and stable relations with these countries, especially in terms of energy cooperation.

The U.S. is not the only energy rival of China in CEA. China is increasingly competing with India, since both countries are struggling to ensure future supplies by either buying into new foreign oil and gas fields or by signing supply contracts. In early 2005, Indian Prime Minister Manmohan Singh said that his country could "no longer be complacent" in its competition with China to secure international energy supplies. When China National Petroleum Corporation (CNPC) recently acquired PetroKazakhstan in 2005, out bidding India's state-owned oil company, the Oil and Natural Gas Corporation (ONGC), this further underscored the rivalry involved between the world's two largest developing countries.

Fortunately, both Beijing and New Delhi know they have similar energy strategies, acknowledging that traditional approaches to attain energy security may not be a solution to a forthcoming energy shock or shortage of supply. In April 2005, both parties reached an agreement on strengthening energy cooperation when Chinese Prime Minister Wen Jiabao visited India. Apart from the alliance established between China Gas Holdings and GAIL (Gas Authority of India Limited), India's largest energy conglomerate, the two countries have launched cooperation over the Greater Nile Oil Project in Sudan on oil refining and transportation, in which CNPC holds a 40 percent stake and India a 25 percent stake.

As reported by Chinese Xinhua News Agency, China Petrochemical Corp (Sinopec) and ONGC also hold a 51 percent and 29 percent stake respectively in the development of the Yadavaran oil field in Iran.¹³The

¹³ "Sinopec, Iran to sign deal to develop huge oil field", *Xinhua*, September 15 2006, <http://news.xinhuanet.com/english/2006-09/15/content_5095505.htm> (October 15 2006).

CNPC is also negotiating with ONGC over joint investment in specific third-country oil projects. Since India supported the International Atomic Energy Agency's (IAEA) position over Iran's nuclear program in 2005, Iranian criticism has made the proposed Iran-Pakistan-India gas pipeline uncertain. But this will also encourage India to deepen bilateral energy cooperation with China. Moreover, in 2006, before the Chinese lunar new-year, India's oil minister Mani Shankar Aiyer signed an agreement to cooperate with China in securing crude oil resources overseas, the aim of which is to prevent fierce competition over oil to drive up prices. In the second round of the Sino-Indian "strategic dialogue" held in Beijing in February 2006, both countries also agreed to cooperate rather than compete for global energy resources.

Iran has been striving for a dominant role in CEA through control of offshore oil and gas fields in the Caspian Sea, but disputes with Azerbaijan, an ally of the U.S., over the offshore fields have somewhat impeded full realization of Iran's strategy. Meanwhile, the dispute with the EU and the U.S. over its nuclear program entered a stalemate in 2006. Since the EU, Russia, China, Japan and India have major oil interests in Iran, the Iranian nuclear crisis will present a vital foreign policy challenge to Mahmud Ahmadinejad's government.

As the global struggle for energy has intensified, Japan has also been alerted to the potentials in Central Asia, especially since it lacks resources itself and is heavily dependent on the Middle East. Currently, 87 percent of Japan's oil imports come from the Middle East, marking an urgent need for diversification of energy supplies. Central Asia presents a viable necessary, practical and effective choice for Japan to ensure a stable and sufficient flow of oil and gas supplies.

At the same time, by engaging economically and politically with this geopolitically important region, Japan could reinforce its strategic objectives of balancing China's influence in the Asia Pacific. Under these circumstances, Tokyo held the first round of the "Central Asia Plus Japan" foreign ministers dialogue in Kazakhstan in August 2004 including Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan (all SCO members) marking a big step forward in its engagements with Central Asia. On June 5, 2006, the second round of the dialogue was held in Tokyo, and the Japanese government announced that it would assist the Central Asian countries in building the so-called "southern route" inland traffic network for future transportation of natural resources, "including the construction of a road in west Kazakhstan, the road rehabilitation between Bishkek and Osh in Kyrgyzstan, and the rehabilitation and modernization of airports in Kazakhstan, Kyrgyzstan, and Uzbekistan." The ongoing projects invested by Japan also include the construction of a railroad in southern Uzbekistan. As Japanese foreign minister Taro Aso said in his speech four days earlier concerning the dialogue, Japan hoped

this “southern route” would “link Central Asia with the sea by means of a road stretching across Afghanistan.”¹⁴ In late August 2006, Japanese PM Junichiro Koizumi visited Kazakhstan and Uzbekistan, and proposed the construction of pipelines from these two countries to the Indian Ocean through Afghanistan. In the foreseeable future, Japan will likely accelerate its engagement with all the Central Asian countries while simultaneously keeping its eyes open to China’s pursued strategy.

The Geopolitical Implications of Energy Competition in CEA

The increasing competition among the great powers over energy resources and their pathways will prove to have major implications for foreign policy formulation, and especially so in Eurasia. The close relationship between economic growth and energy supply makes developed countries worry about losing influence when challenged by rising developing countries, such as China and India. As stated in a report by the U.S. National Intelligence Council: “China and India’s perceived need to secure access to energy supplies will propel these countries to become more global rather than just regional powers, while Europe and Russia’s co-dependency is likely to be strengthened.”¹⁵ A growing energy demand will promote geopolitical and energy competition among great powers that, in turn, will reinforce their perceived energy insecurity. This is however not to say that cooperation is impossible. In the words of one analyst:

“[T]he rivalry between the United States, Russia, China, Turkey, Iran, and other regional powers since the early 1990s has focused on two dimensions—strategic considerations and hydrocarbon interests. To a great extent the former has been pursued in zero-sum terms with little room for compromise. By contrast, there has been some cooperation in the competition over energy resources.”¹⁶

CEA is no exception. Thus, the pace of economic globalization to some extent relaxes geopolitical competition and may prevent great-power conflicts in the foreseeable future as well. Here, geo-economics emphasize the growing role of economic integration and interdependence

¹⁴ “Central Asia plus Japan” Dialogue Action Plan, released on June 5, 2006 by the Ministry of Foreign Affairs of Japan and the Speech “Central Asia as a Corridor of Peace and Stability” by Taro Aso on June 1 at the Japan National Press Club, <<http://www.mofa.go.jp/region/europe/index.html>> (November 15 2006).

¹⁵ “Mapping the Future”, Report of the US National Intelligence Council’s 2020 Project, p. 48.

¹⁶ Gawdat Bahgat, “Central Asia and Energy Security,” *Asian Affairs* 37, 1 (March 2006): 15.

where national interests cannot be pursued solely by military means, but by economic expansion into foreign markets. Fortunately, great-power energy competition is still limited to the “economic” level and penetration through investment and trade will continue to be the main choice for CEA countries and great powers in the “great game”. Of course, if geopolitics and energy rivalry endanger the fundamental national interests of any great power, military involvement or conflicts may take place.

Oil Pipeline or “Power” Pipeline

Due to the lack of pipeline access and options besides the Russian one, it is very important for the land-locked countries of CEA to find new transportation networks for their oil and natural gas exports. The existing pipelines that run through Azerbaijan, Kazakhstan and Russia are poorly designed, shabbily constructed, made of low-quality materials, and cannot meet the demand for Central Asian oil and natural gas exports. The Caspian republics “seek multiple pipeline options to distance themselves from Russia and to gain access to different markets and consumers in Europe, the U.S. and Asia.”¹⁷ Indeed, there is fierce competition over pipelines, ownership, and their further stretches in CEA, and there have been numerous proposals by concerned countries to build east-or-west directed pipelines in their pipeline diplomacies.¹⁸ In the words of one analyst: “In a sense, to control oil and gas pipeline is more important than to possess oil and gas resources.”¹⁹ Whoever controls the lifeline of oil transportation controls the oil resources of Central Asia, and by extension will dominate the politics of the CEA states as well. The BTC pipeline is a primary example of this. As one expert put it, “The BTC’s [Baku-Tbilisi-Ceyhan pipeline] opening is a defining moment. At a minimum, the struggle is over control of the Caucasus and Central Asia. On the very outside, it can mean the breakup of Russia and China.”²⁰ In the end, this competition has resulted in more focus on

¹⁷ Mehdi Parvizi Amineh, *Globalization, Geopolitics and Energy Security in Central Eurasia and the Caspian Region*, chapter 10, p. 195.

¹⁸ Prof. Gawdat Bahgat draws three conclusions from the consideration of pipeline diplomacy in the Caspian Region. First, multiple export routes increase energy security for consumers, producers, and the global energy markets by making deliveries less vulnerable to technical or political disruptions on any individual route; second, in many cases, the decision to choose the most appropriate route reflects a competition between economic interests and strategic concerns; and third, pipeline capacity and availability will, to a large extent, influence the timing of oil and gas development in the Caspian region. For more elaboration of pipeline diplomacy, see Gawdat Bahgat, “Central Asia and Energy Security”, pp. 7-10.

¹⁹ Ni Jianmin ed., *National Energy Security Report*, p.115.

²⁰ M K Bhadrakumar, “Catalysts of conflict in Central Asia,” *Asia Times Online*, Jun 2 2005.

political disputes than economic benefits where oil and gas transportation is concern.

To weaken Russian and Iranian control of Caspian oil and gas, the United States has heavily promoted the newly inaugurated BTC oil-pipeline running from Baku, Azerbaijan to Ceyhan, Turkey, as well as a trans-Afghan natural gas pipeline running from Turkmenistan to Pakistan through Afghanistan, both bypassing Russian and Iranian territories. Moreover, the United States opposes India's plans to strengthen energy cooperation with Iran through the projected Iran-Pakistan-India gas pipeline and has also voiced its objections to the construction of the Atasu-Alashankou pipeline running from Kazakhstan to Xinjiang. With regards to Japan, it does not only compete with China over the Far East Siberian oil pipeline today, but it has also emerged as a player over Caspian oil and gas in recent years. The next part will focus on two examples of oil and power pipelines that illustrate the obstacles involved in international energy cooperation in the Caspian region.

The Baku-Tbilisi-Ceyhan Pipeline

As the Soviet Union disintegrated, the United States announced its strategy of promoting U.S. oil companies' investments in Central Asia and the Caspian Sea region. Backed by the United States, Turkey sought to gain access to Caspian oil by building the Baku-Tbilisi Ceyhan pipeline. In the words of Brzezinski, U.S. strategy toward CEA in 1997 was guided by,

“...regular consultations with Ankara regarding the future of the Caspian Sea basin and Central Asia would foster in Turkey a sense of strategic partnership with the United States. America should also strongly support Turkish aspirations to have a pipeline from Baku in Azerbaijan to Ceyhan on the Turkish Mediterranean coast serve as major outlet for the Caspian Sea basin energy sources.”²¹

There should be no doubt about the weight and significance given to the project from Western contractors and the states involved. The BTC pipeline was originally proclaimed by BP and others as the “project of the century” where Zbigniew Brzezinski, acting as a consultant to BP during the Clinton era, urged Washington to support the project. Indeed, Brzezinski went in 1995 on an unofficial trip to Baku to meet with then-

²¹ Zbigniew Brzezinski, *The Grand Chessboard: American Primary and Its Geostrategic Implications*, p. 204.

President Haidar Aliyev to negotiate new pipeline routes from Azerbaijan, including the now existing BTC pipeline.²²

The BTC plan had more political implications than economic considerations from the very beginning. Officials from the United States, Turkey, Azerbaijan and Georgia have always emphasized the geopolitical role of the BTC pipeline. This pipeline, it was argued, would strengthen the independence of the smaller Caspian states while impairing Russian influence in the CEA region. In 1998, in presence of the U.S. energy secretary, the presidents of Azerbaijan, Georgia, Kazakhstan, Turkey and Uzbekistan signed a joint declaration aiming to promote multilateral cooperation over the exploration and transportation of Caspian oil. As stated by Zhiznin: "The BTC pipeline was regarded as a strategic pipeline and political factors played a leading role in the declaration."²³ In late 1999, during the Organization for Security and Cooperation in Europe (OSCE) summit meeting in Istanbul, the presidents of Azerbaijan, Georgia, Kazakhstan, Turkmenistan and Turkey in presence of U.S. President Bill Clinton signed a series of political documents supporting the construction of the BTC pipeline and a cross-Caspian Sea natural gas pipeline. As Western specialists conclude, "the building of the Baku-Tbilisi-Ceyhan pipeline constitutes a strategic milestone in post-Soviet Eurasia."²⁴

In September 2002, construction of the long debated 1,700 kilometer BTC pipeline began. It opened in May 2005 and with its total cost of US\$3.6 billion it is one of the most expensive oil projects ever. As noted by Zha Daojong: "This is the first oil pipeline intervened directly and controlled by western countries, and this 'seeking far and wide for what lies close at hand' pipeline implies the American thoughtful motives of

²²F. William Engdahl, "Color Revolutions, Geopolitics and the Baku Pipeline," *Global Research*, June 25 2005 <<http://www.globalresearch.ca/>> (November 5 2006).

²³ Stanislav Z. Zhiznin, *Fundamentals of Energy Diplomacy*, 2 Volumes, 2003, Chinese Version, Translated by Qiang Xiaoyun, Shi Yajun, Chengjian, et al, *International Energy Politics and Diplomacy* (East China Normal University Press, 2005), 126.

²⁴ Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, security experts from the Europe and the United States advocate the geostrategic implications of the BTC pipeline for the South Caucasus countries, Turkey, Iran, Russia, and the United States and Europe. "For the United States and Europe, BTC provides further impetus for western involvement in the energy and security sectors of the wider Caspian basin – and indeed, proves that the lofty but near forgotten ambitions of building an east-west corridor linking Europe to Central Asia and beyond via the Caucasus are not only possible but are being realized." See Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, "Geostrategic Implications of the Baku-Tbilisi-Ceyhan Pipeline", in S. Frederick Starr and Svante E. Cornell, ed. *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Washington: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005).

containing Russia and Iran.”²⁵ In time to come, it is estimated that BTC will have a capacity to transport 1 million barrels of oil per day.

Needless to say, the BTC oil pipeline and its profitability may depend on the ultimate volume of Kazakh oil that is transported on this route. The U.S. has pushed for building a trans-Caspian pipeline that would give Kazakhstan the ability to pipe crude oil through the BTC pipeline.

In addition, the U.S. has been attentive to challenges presented by terrorist groups in CEA, as well as a military presence of Russia and Iran in the region. On that basis, the U.S. is striving to get permanent access to bases in Georgia and Azerbaijan. This, is something which is viewed as a direct strategic provocation by the Caucasus countries' primary antagonists, Russia and Iran. For this purpose the Pentagon has put aside \$100 million for the launch of a Caspian Guard which purportedly is being set up to guard the BTC pipeline. Some of these funds are also reportedly used to build a radar-equipped command center in Baku.²⁶

The objective of the U.S. is “to deny to a single state, other than the U.S. itself, or coalition of powers not including the U.S., the capability to set conditions for accessing the energy resources of West and CEA.”²⁷ In a sense, to control the Caspian Sea would imply control of energy resources in this region, particularly exports from Kazakhstan and Turkmenistan, two main targets of Chinese energy companies in Central Asia.

China-Kazakhstan Oil Pipeline

In 1993, China became a net importer of oil products, and energy demand and imports have increased steadily since. Ten years later, in 2003, China's imports of oil increased 30 percent over 2002 making China the second largest importer of petroleum after the United States, even surpassing Japan in 2004. In 2005, China's oil imports were expected to grow by 10 percent to about 7 million barrels a day. The trend of China's increasing import volumes is set to continue. China will inevitably have to strengthen its pursuit of energy to keep up with demand and the pace of economic growth. This has been partly achieved by seeking to forge more extensive energy ties with Kazakhstan.

In 1997, the news of China National Petroleum Corporation's investment in oil exploration in Kazakhstan greatly surprised western countries and spurred a closer scrutiny of China's potential oil demand

²⁵ Zha Daojiong, *China's Oil Security: International Political and Economic Analysis* (Beijing: Contemporary World Press, 2005), 104

²⁶ Mehdi Parvizi Amineh and Henk Houweling, “The Geopolitics of Power Projection in US Foreign Policy: From Colonization to Globalization”, in Mehdi Parvizi Amineh and Henk Houweling ed., *Central Eurasia in Global Politics: Conflict, Security and Development*, p. 25.

²⁷ *Ibid.*, p. 25.

and the effects that this would have on energy prices.²⁸ The main focus of China-Kazakhstan energy cooperation has in recent years been the construction of the 3088 kilometers Atasu-Alashankou oil pipeline running from the Atyrau oil base in western Kazakhstan to Alashankou in China's Xinjiang autonomous region. In December 2005, the second cross-border phase of the pipeline running 962 kilometers was finished, and its significance should not be underestimated. In the words of William Engdahl: "The pipeline will undercut the geopolitical significance of the Washington-backed Baku-Tbilisi-Ceyhan oil pipeline which opened amid big fanfare and support from Washington."²⁹ Kazakhstan's Vice Energy Minister Musabek Isayev said on November 30, 2005, in Beijing that half the oil pumped through the new 200,000 barrel-a-day pipeline would come from Russia because of insufficient output from nearby Kazakh fields. That was interpreted as closer China-Kazakhstan-Russia energy cooperation – "the nightmare scenario" of Washington.³⁰

The Atasu-Alashankou oil pipeline also represents a partial step into the massive reserves of the Caspian Sea, and especially the Kashagan oil-field located in the north of the Caspian. As the connection between Kumkol and Kenkiyak is completed, the Atasu-Alashankou pipeline will have a direct linkage with Kashagan as the field is developed. In 2005, China imported 1.3 million tons of crude oil from Kazakhstan via Alataw Pass in Xinjiang. Experts predict the figure will climb to 4.75 million tons this year and to around 8 million tons in 2007.³¹ China is expected to become one of Kazakhstan's major target markets.

Chinese experts see three benefits derived from building the China-Kazakhstan pipeline and extending its energy ties with Kazakhstan: First, it will lessen China's dependence on oil from the Persian Gulf, greatly decreasing the risk of Middle Eastern turbulence to China's energy security. Second, the location in the inland of Eurasia will make China's oil supply route safer. And third, it will provide China with a long-term and stable land-based oil supply alternative.³² As the project is completed, it will also represent a major strategic gain as it is "...the first time [China] have secured a source of imported energy not vulnerable to U.S. aircraft carrier battle groups, as is the case with present oil deliveries

²⁸ See Xu Xiaojie, *Geopolitics of Oil and Gas in the New Century: A Closer Look at Challenges Facing China*, pp. 145-46.

²⁹ F William Engdahl, "China lays down gauntlet in energy war," *Asia Times Online*, Dec 21 2005.

³⁰ *Ibid.*

³¹ "Kazakhstan oil piped into China," *Xinhua*, May 25 2006, <http://news.xinhuanet.com/english/2006-05/25/content_4597314.htm> (October 15 2006).

³² Ni Jianmin ed., *National Energy Security Report*, p.140.

from the Persian Gulf and Sudan.”³³ In late May of this year, oil began to flow to Duzishan of Xinjiang through the Atasu-Alashankou oil pipeline. Furthermore, in October 2005, the China National Petroleum Corporation completed a \$4.18 billion takeover of PetroKazakhstan Inc. after Washington blocked China's acquisition of Unocal.

As a result of China's growing power, opportunities have opened in recent years where Russia gradually has come to accept China's strategic leverage in countering American presence in CEA. Indeed, much strategic space could be found for China in the present regional power vacuum but coordination with other outsiders still remains a challenge for China's oil diplomacy.

China has started to pay more attention not only to energy cooperation with Russia regarding the construction of pipelines from the Far East, but also in other projects. The construction of the China-Kazakhstan pipeline was undertaken on the assumption that it would carry not only Kazakh oil, but also transfer Russia's Caspian oil. As the Atasu-Alashankou pipeline opened, China considered asking Russian companies to help fill it until the Kazakh supply was sufficient.

However, the United States has been unwilling to see the success of China's efforts to improve its energy security situation. The American policy toward Central Asian has affected China's room of maneuver. As a specialist on Central Asian affairs has stated,

“...unlike Central Asia, Russia, Pakistan and India, China has made no solid gains from the changes in U.S. policy after 11 September (...) China's drive for influence in Central Asia will become harder now that the United States has ensconced itself in the region, and the American military presence on its western edge complicates China's strategic planning.”³⁴

Apart from U.S. competition, Japan has also become seriously concerned over the pace of China's energy cooperation with Central Asian countries in recent years and launched countermoves. In the words of Zha Daojiong: “Japan has the intention of constraining China's growing power through the means of transportation of resources.”³⁵ Nowadays, many oil giants from the United States, Great Britain, France, Italy, Canada, Russia and other countries have entered the fields of Kazakhstan, which will bring further complexities and uncertainties to China-Kazakhstan oil cooperation.

³³ F William Engdahl, “China lays down gauntlet in energy war”.

³⁴ Rajan Menon, “The New Great Game in Central Asia,” *Survival* 45, 2 (Summer 2003): 197, 199.

³⁵ For more interpretation of Japan's motivation in Central Asia and China's concerns, see Zha Daojiong, *China's Oil Security: International Political and Economic Analysis*, p. 112-113.

Whither China's Energy Strategy towards Central Eurasia?

An undercurrent of instability and conflict has appeared in the Caspian Sea region. The growing political, economic and military competition among great powers has in recent years made the Caspian Sea, Central Asia and the Caucasus a source of power struggle which indeed may justify labeling it "the Eurasian Balkans" to use the words of Brzezinski. Its significance for China's energy security should not be underestimated. As stated in *the National Energy Security Report*:

"China is a neighboring country of this [Central Asian] region. We must join the regional geo-economic and geopolitical activities for our circumjacent security and oil-supply security (...) The rivalry between the United States (in Central Asia) and Russia will be getting rapidly intense. China should not withdraw from the (great-power) competition in this region for the safety of China's oil supply."³⁶

Two key questions emerge from this: What are the alternatives for China's oil strategy towards the Caspian Sea region? How should China respond to great-power rivalries in CEA?

In early June 2005, the Chinese government set up the National Energy Leading Group appointing Prime Minister Wen Jiabao as its head. The purpose of the group is to formulate a strategic plan and policy for energy security and emergencies, and raise energy exploration and reserves, including foreign cooperation and other comprehensive policy suggestions. Zhang Guobao, vice chairman of the National Development and Reform Commission (NDRC) said that China has a large potential to develop new oil and gas resources, especially natural gas, and some 94 percent of China's energy consumption depends on its own supply, with an external dependency rate standing merely at 6 percent.³⁷

In his words, China should adhere to the principle of relying on domestic resources to safeguard energy supply and it should study alternative ways to gradually increase its national oil reserve, rather than buy crude oil from the world market to fill in its reserves when oil prices remain high. However, Zhang also underscored that reliance on domestic resources does not mean rejecting international cooperation. As foreign experts warn,

³⁶ Ni Jianmin ed., *National Energy Security Report*, p.149.

³⁷ Embassy of the People's Republic of China in the United States of America, "China capable of maintaining oil output in 20 years," September 14 2005, <<http://www.china-embassy.org/eng/xw/t211949.htm>> (November 5 2006).

“[T]he idea that energy security can be improved by reducing import dependence is an obstacle to clear thinking (...) The ‘conventional vision’ of continuing expansion of oil use with some loss of market share and without strongly escalating prices is a reasonable but fragile reference line against which to discuss the dynamics of the future.”³⁸

In fact, China's external oil dependency rate is getting higher, reaching 42.9 percent in 2005.³⁹ In addition, the proven reserve of China will exhaust in 14 years in terms of domestic oil supply.⁴⁰ The question is: when facing the threat of an energy blockade, how can Beijing ensure its oil security with international conflicts along the sea lanes of Asia, including the East and South China Sea, the Malacca Strait, the Hormuz Strait, and the Indian and Pacific Oceans? One of the main concerns of China's energy diplomacy is, according to a Norwegian report, “to secure access to energy for all parts of China at the lowest possible cost, either through domestic production or import.” The report also lists the various worst-case scenarios that will affect on China's oil strategy:

“In terms of threats to its energy security, China's policy makers have three major worries: sudden disruptions in provision of oil to the global market could trigger serious energy shortages and sharp price spikes; China might be affected by disruptions in tankers flows from unstable exporting regions such as the Persian Gulf, Central Asia and Africa; Japan and the U.S. might attempt to deny China vital oil supplies in the event of a confrontation.”⁴¹

Under such geopolitical considerations, “the construction of overland oil pipelines is seen as desirable in order to mitigate China's

³⁸ John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, p276.

³⁹ Embassy of the People's Republic of China in the United States of America, “China's oil consumption, imports decrease in 2005,” March 2 2006, <www.china-embassy.org/eng/gyzg/t233673.htm> (November 3 2006).

⁴⁰ There are several levels energy security concerns: “national security risks” (strategic reserves for military), “securing domestic policies” (to protect freedom to manage internal affairs), “securing foreign policy” (to protect freedom to practice an independent foreign policy) and “long-term costs and effects of sanctions” (to use sanctions to further its foreign policy objectives). See John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, pp. 197-202.

⁴¹ Stein Tønnesson and Åshild Kolås, *Energy Security in Asia: China, India, Oil and Peace*, Report to the Norwegian Ministry of Foreign Affairs, April 2006, p. 19. <www.prio.no/files/file47777_060420_energy_security_in_asia_final_.pdf> (November 5 2006).

vulnerability.”⁴² From this perspective, the CEA region would be China’s preference for oil and gas supplies through overland pipelines.

The Strategic Implications of Strengthening China-Central Asia Oil Cooperation

China’s foreign policy in the 21st century is facing fundamental challenges from the geopolitics of energy. China’s growing investments in, and deepening political relationships with, energy producing nations in Central Asia reflect its perceived “energy vulnerabilities” and a desire to ensure energy security by diversifying supply away from Middle Eastern sources. Geopolitically, one of the most important questions for China is also to “stabilize the west side” and its western border.⁴³ The difficulty is how to maintain a stable situation in CEA when China’s strategy towards its western neighbors in CEA has to consider oil supply and geopolitical challenges simultaneously. Strengthening close energy relations with the Central Asian countries has remarkable implications for China’s energy strategy, not least since the oil-rich Caspian Sea is regarded as the second “Persian Gulf”. Therefore, China’s close energy relationship with Central Asian countries will play an important role in improving China’s economic growth.

In addition, the diversification of oil resources is an important component of China’s oil security. The Middle East has been the main source of oil for China’s imports, but it is the most turbulent region in the world, particularly after the United States’ invasion of Iraq in 2003 which only endangers China’s energy security as China’s vulnerability on oil from the Persian Gulf grows.⁴⁴ China has sought diversification by enhancing oil cooperation with oil-rich African countries, such as Sudan and Nigeria, Latin American countries, most notably Venezuela, and Central Asian countries such as Kazakhstan and Turkmenistan. Since the proportion of oil imported from Central Asia is relatively low, bilateral oil cooperation has a large potential in the future. Besides, China should engage with states in Central Asia that has achieved a relatively high level of security and stability, and states where it already has obvious geopolitical advantages when competing with other outsiders.

Lastly, China’s energy strategy shares the same feature of diversification with Central Asian countries. In order to maintain economic independence the former Soviet republics, and especially Kazakhstan and Turkmenistan, have carefully sought to navigate between the competing great powers, especially the United States and Russia, striving to avoid being played by any one actor against the others. China’s entry into this region can provide new oil pipelines and further

⁴² *Ibid.*, p. 20.

⁴³ Ye Zicheng ed., *Geopolitics and China’s Foreign Policy* (Beijing: Beijing Press, 1998), 25.

⁴⁴ For more explanation of the dangers facing China’s energy strategy, please see Ni Jianmin ed., *National Energy Security Report*, pp. 140-41.

options for these inland states due to its role as a balancing force between Washington and Moscow.

Measures for China's Energy Strategy toward Central Asia

China has invested steadily in Central Asia since the early 1990s, and given special weight to the potentials of Kazakhstan to act as a supplier. This included both oil exploration, pipelines and refinery facilities, and at the turn of the century China also accelerated its engagement with the region. This year China has signed a major agreement with Turkmenistan and Turkmen President Saparmurat Niyazov for selling China natural gas and building a gas pipeline linking the two countries.⁴⁵

China is also helping to develop oil fields in Uzbekistan and hydroelectric power projects in Kyrgyzstan and Tajikistan. Given the intense oil and pipeline competition among the great powers, having a presence in Central Asia above all means having access to the enormous Caspian Sea oil reserves. China should consider its strategy toward Central Asia from a geopolitical view and take the following measures.

First, China should support the SCO to be not only an international organization for fighting the “three evils” of extremism, terrorism and separatism, but also for promoting greater economic integration and energy cooperation. Under the aegis of the SCO, China has also established mutual military confidence measures by holding joint military exercises with Kyrgyzstan in 2002 and other SCO members in 2003 and established an anti-terror center in Tashkent. The Central Asian states share the “Five Principles of Peaceful Coexistence” with China. They all oppose any dominating activities by any great power and maintain independent and balanced foreign policies, and it is also to the benefit of China, the late-comer, to develop close relationships with them. The deepening of political and economic cooperation under the SCO framework has been accelerating in recent years since China and Russia regard regional economic integration to be a primary interest for their own national security.⁴⁶ In terms of the “Going West” development strategy, China's domestic longest pipeline, the 4,200 kilometer Tarim Basin to Shanghai gas pipeline, could potentially be extended to Kazakhstan and Turkmenistan and even further to other Caspian states by linking up with the Atasu-Alashankou pipeline.

⁴⁵ “China, Turkmenistan Agree on Gas Pipeline,” *China Daily*, April 4 2006, <http://www.chinadaily.com.cn/china/2006-04/04/content_559250.htm> (November 3 2006).

⁴⁶ As Mehdi Parvizi Amineh says, “Most actors involves in the region would rather benefit from converting CEA from a zone of geopolitical competition and confrontation to one of cooperation. Political stability and socio-economic development in this region will be crucial for global peace and security.” See Mehdi Parvizi Amineh, *Globalization, Geopolitics and Energy Security in Central Eurasia and the Caspian Region*, p. 27.

Second, China should work with Russia to improve the SCO's relationship with Turkmenistan and Afghanistan. Without the membership and participation of Ashgabat and Kabul (let alone observer status), the SCO falls short of its capacity to develop regional economic integration and energy cooperation. In a sense, Afghanistan is becoming the new "colony" of the United States following the military intervention in Afghanistan. Turkmenistan, in turn, has pursued a foreign policy of neutrality and independence while facing growing security challenges from the south, especially from Iran and Afghanistan. As Iran gained observer status in the SCO in 2005, this will further promote regional integration and the feasibility of joint infrastructural projects. For example, the chances of building the proposed oil pipeline from Kazakhstan via Turkmenistan to Iran may be raised if this is coordinated through the SCO. Such a pipeline would further propel the prospects of regional integration and interdependence.

Meanwhile, China should reassess its foreign policy towards Iran considering the heavy oil dependence on that country. China currently receives 13.6 percent of its oil imports from Iran, and in March 2004, China signed a \$100 million deal with Iran to import 10 million tons of liquefied natural gas over a 25-year period. The deal was conditional upon Chinese investment in Iran's oil and gas exploration, petrochemical and pipeline infrastructure. For China-Iran relations, there is nothing more important than oil cooperation. The most urgent measure to take is for China to be involved in planning the construction of a pipeline from Iran to the Caspian Sea to link up with the planned pipeline from China to Kazakhstan.

Third, due to the effects of geopolitics in the CEA region, China is better off exploring bilateral and multilateral oil cooperation when implementing its overseas oil strategy.⁴⁷ There are arguments that China's growing presence on the international energy stage could ultimately bring it into confrontation with the world's largest energy consumer, the United States. In fact, China's oil strategy is driven by economic benefits based on the principle of mutual trust and equality. China's oil expansion strategy mainly gives prominence to economic presence, not the presence of political alignment, military forces, or military threat. However, the argument of "China's oil threat" could hamper Beijing's efforts to improve oil cooperation among SCO countries if neglecting the establishment of bilateral or multilateral trust with other external powers. As stated by a group of analysts: "Cooperation to achieve and share the benefits of certain major energy 'projects', defined in the widest sense, could contribute to wider

⁴⁷ For more elaboration of the "going out" strategy for China's oil company, please see Ni Jianmin ed., *National Energy Security Report*, pp. 420-423.

cooperation and put constraints on the development of conflicts.”⁴⁸ The Sino-Indian agreement on securing overseas crude oil resources is a good example on the intentions of China's oil strategy, and may be used to enhance the reputation of China's strategy internationally.

⁴⁸ John Mitchell with Peter Beck and Michael Grubb, *The New Geopolitics of Energy*, Energy and Environment Programme, Royal Institute of International Affairs, 1996, p. 190. For the question of how to improve the capacity of energy-importing countries to diversify the long-term supplies and build capacity to deal with short-term disruption of oil supply, please see John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, pp. 273-74.