

China's Energy Geopolitics

The Shanghai Cooperation
Organization and Central Asia

Thrassy N. Marketos



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China's Energy Geopolitics

China's need for energy has become an important factor in contemporary world politics and a precondition for sustaining China's continuing high economic growth. Accordingly, Chinese energy policy has been a political and strategic rather than a purely market-driven policy. This book examines China's energy geopolitics, focusing in particular on the need for a stable and secure investment environment which is necessary for the provision of energy to China from the Central Asian states.

The author argues that the institutionalization of the Shanghai Cooperation Organization (SCO), the Friendship and Cooperation Treaty between Russia and China and Chinese bilateral agreements with individual Central Asian states present an avenue and a framework of stability in which pipeline construction can commence. However, in order to stabilize the region for Chinese investment in energy resources, the author argues that the United States needs to be present in the region and that a strategic framework of cooperation between Russia, China and the United States has to be developed.

The book will be of interest to academics working in the field of International Security, International Relations and Central Asian and Chinese politics.

Thrassy N. Marketos is lecturer at the Athens, Greece, branch of the 'Centre d'Etudes Diplomatiques et Strategiques' (CEDS), Paris, France.

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Source: Philippe Rekacewicz, *le Monde diplomatique*, Paris, May 2005

Map 2.2 Russia: main natural gas export pipelines

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Map 2.3 Russia: main natural oil export pipelines

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Map 2.4 Map of selected oil and gas pipeline infrastructure in the former Soviet Union

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Abbreviations

ADB	Asian Development Bank
CACO	Central Asian Cooperation Organization
CAU	Central Asian Union
CEA	Central Eurasia
CENTRASBAT	Central Asian Peacekeeping Battalion
CFE	Conventional Forces in Europe Treaty
CICA	Conference on Interaction and Confidence-Building Measures in Asia
CNPC	China National Petroleum Corporation
CSBM _s	Confidence and Security-Building Measures
CSTO	Collective Security Treaty Organization
ECSC	European Coal and Steel Community
EEC	Eurasian Economic Commonwealth
EEZ	Exclusive Economic Zone
ELN	Ejercito de Liberacion Nacional
ETIM	East Turkistan Islamic Movement
EU	European Union
EURASEC or EAEC	Eurasian Economic Community
GUAM	Georgia–Ukraine–Azerbaijan–Moldova Coalition
IMU	Islamic Movement of Uzbekistan
NATO	North Atlantic Treaty Organization
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organization for Security and Cooperation in Europe
PfP	Partnership for Peace Program
PLA	People's Liberation Army
PRC	People's Republic of China
RATS	Regional Anti-Terrorism Structure
SCO	Shanghai Cooperation Organization
SLOC _s	Sea Lanes of Communications
TRASECA	Transport Corridor Europe–Caucasus–Asia
UNCLOS	United Nations Convention on the Law of the Sea

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Introduction

Since the beginning of the twenty-first century, competition among the great powers over energy resources and pathways have become 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 because of its vast energy resources and strategic location. Geographically, Central Asia is here defined to include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, whereas 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-rich and natural gas-rich Caspian Sea. Kazakhstan and Azerbaijan have the biggest oil reserves and are the largest exporting countries, although Turkmenistan's oil and gas exports have been growing rapidly in recent years as well.

Indeed, CEA 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 competition in the region. This, in turn, has made CEA a pivot in the new world order, and especially so when seen in the context of its rich energy reserves and the growing world demand for energy.

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 such as the United States, Europe, China and India are paying close attention to the CEA region, particularly Kazakhstan, Turkmenistan, Iran and Azerbaijan, whereas other regional powers such as Russia are striving to retain influence over these strategic resources.

According to the BP Statistical Review of World Energy (2004), proven oil reserves of the five Caspian littoral states total 216.4 billion barrels, and total gas reserves are estimated at 2819.2 trillion cubic feet. In terms of

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percentages, the five Caspian littoral states have about 18.8 per cent of the world's total proven oil reserves and 45 per cent of the world's total proven gas reserves.¹ Officials and analysts from the US Energy Information Agency stated in 2004 that the world's unproven oil reserves are expected to double in the next two decades, and states located in former Soviet territory will account for a projected fourfold increase.² As such, there should be no doubt that the total Caspian oil and gas reserves are set to be adjusted upwards in the coming years, and 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.

Geopolitically, the CEA region belongs to what Mackinder designated as the 'heartland' and is the centre 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. Yet despite this strategic significance, the US geopolitical assessment of the CEA region in the 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 11.³ As argued by Svante E. Cornell:

With strategic access crucial to the prosecution of the war [on terror], the republics of Central Asia took centre 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.⁴

However, the emerging strategic landscape of the region has not only affected the interests of the United States, but also the national interests of neighbouring countries, such as Afghanistan, China, Iran, Pakistan, Turkey and even Ukraine, as well as outsiders such as the European Union, India and Japan. All of these contest for influence in one way or another, although some are more successful and have more leverage over the CEA states than others.

This great-power rivalry which has primarily manifested itself in the early twenty-first 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.⁵

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 CEA. Events such as the 1973 oil crisis, 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.⁶

Eurasia and in particular its central part, Central Asia, increasingly seems to be either the stage for a revised version of the 'great game', where the main actors today are China and the United States rather than the nineteenth-century actors Russia and Great Britain (even though Russia still holds a failing grip over the region) or the object of an attempt by China to re-create a classical vassal relationship between China and the Central Asian states.⁷ The importance of Central Asia in China is greater than it has been since the region west of today's China became an integrated part of the Chinese tributary system. Chinese expansion in the region has only been slowed by the current Russian influence, however decreasing, and the competing US attempts to exert influence over the region. Beijing has developed a prioritized policy orientation towards Central Asia, in contrast to the American policy, which seems to have a much more reluctant *ad hoc* presence based on the war against terrorism. From a Chinese perspective, the most important reason for a Chinese presence in the region appears to be an effort to dominate Central Asia in order to secure China's growing need for oil and natural gas. Moreover, there seem to be important security reasons for China's attempt to create a traditional 'vassal' relationship between China and the Central Asian states through investments, trade and military cooperation. It is clear that both the security on China's western border and the internal security in Xinjiang depend upon peaceful development in its Central Asian neighbouring states and China's relations with them.⁸

Central Asia is situated at the crossroads between the East and the West and has historically been in contact with a variety of cultures and economies. This interaction made the Central Asian kingdoms and khanates the most powerful and culturally advanced regions historically.⁹ Central Asia's centrality in world affairs was reduced to relative insignificance during the

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Soviet occupation and today the region is plagued by many problems. In addition to terrain that stretches from burning deserts to ice-cold mountains, the lack of infrastructure and an almost endemic problem with drugs and militarized conflicts, especially ethnic conflicts, hinders development. However, Central Asia, as a consequence of its increasingly important position in world affairs through its oil and gas findings and its strategic location, has been called China's 'Dingwei' (*Lebensraum*), the beginning of the new great game as Peter Hopkirk has defined it, the emergence of a Grand Chessboard as Zbigniew Brzezinski has formulated it, or the start of the final clash of civilizations as Samuel Huntington has described it.¹⁰

China has increased its attention towards the region militarily, politically and financially since 1991, when the Central Asian states became independent. As an example, the most efficient regional organization today in Central Asia is the Shanghai Cooperation Organization (SCO), which was founded in Shanghai in 1995 as the Shanghai Five by China, Russia, Kazakhstan, Tajikistan and Kyrgyzstan. The Chinese President Hu Jintao has declared that the Central Asian region is central to Chinese development. This cannot only be seen in the increased number of military exercises and the amount of political cooperation between China and the Central Asian states but also in the rapidly increasing trade and investments from China. The question remains: what determines Chinese interaction with the Central Asian states? Trade and economic integration between China and the Central Asian states are promising when considering deepened cooperation and there are no serious interstate security risks.

China has traditionally viewed Central Asia as its personal trading area and a region heavily influenced by Chinese culture. Many of history's most impressive trading centres were positioned in Xinjiang or west of China's current borders, such as Jarkand, Samarkand, Urumuqi and Kokand. The trade between China and Central Asia has always been crucial and favoured by both sides, as it is today.¹¹

The situation in Central Asia seems to be developing into a new version of the 'great game' that was played out between Great Britain and Russia in the nineteenth century in Central Asia, but this is only one aspect of the newly developed relationship. The Chinese attempts to dominate the region look like a new version of classical vassal relations and China has worked hard to bring Central Asia once more under its economic and political influence. The principal actors today are China and the United States, especially following the US intervention in Afghanistan. Neither China nor America is concerned over Russian pressure in the long term, for they know Russia has severe economic and social problems of its own to deal with. This became apparent during the US intervention in Afghanistan, where Russia followed the US lead and hoped to gain financially from the intervention, but also earlier when Russia agreed to share its influence over Central Asia with China through the SCO. Beijing initially thought that time and the economy were on its side, in the case of Russia, but time is not what China can afford

today as the United States is positioning itself in Central Asia. It is apparent that Beijing has begun to use financial means to make the Central Asian states more dependent on China, a dependence that builds on gas and oil as well as political–military cooperation. This dependence would make it possible for China to build a political and economic base in Central Asia.¹²

It is, however, clear that neither China nor the United States can exclusively dominate the region. Russia, Europe, Iran, India, Pakistan and Turkey are other actors of varied importance that also attempt to influence the region, and this will prove to be to the advantage of the Central Asian states as they will benefit from the competition.¹³ Russia and India realized early on that they would not be able to dominate the region and their focus has been to minimize the negative effects of Chinese and American influence over Central Asia.

It is also important to point out that Russia has been the most important military power in the region, and could arguably be so for years to come if the 201st Motorized Rifle Division is kept in place in Tajikistan. However, the war against the Taliban and bin Laden has put US forces on the same ground as Russian troops. This has shifted the military balance in the region and it is likely that America will try to stabilize (change) the regional states in order to suit its own purposes, and one of the possible ways to do this is to arm pro-American states.¹⁴

China, on its side, has signed several military agreements with Kazakhstan, Kyrgyzstan and the other Central Asian states. It is evident that China has begun to move into the Russian sphere of interest, and with increased US involvement it has boosted its military engagement, as has been seen in the increased number of military exercises and money to the security sector. This could be the beginning of the end for Russian military dominance in the region as the Russians have neither the political will nor the resources to meet the Chinese challenge, despite the fact that many Russians fear Chinese expansion.¹⁵ China's hope is that the US troops will soon move out of the region and that this would work in their favour as they could move into the power vacuum without any significant challenge from Russia. There are, however, no indications that the United States will move out in the coming years; on the contrary, it seems that the United States is strengthening its position in Central Asia. One can perceive the same tendency also in Afghanistan, where the US is sending more NATO troops for securing the fragile Kabul government and the secure future passage of hydrocarbon products from Central Asia, targeting the markets of India and possibly China.

Both India and Russia have indicated interest in a strategic alliance with China to consolidate some control over the region, but China did initially reject any propositions on this matter. The situation has changed in the light of the US intervention in the region, and China is now much more interested in cooperation with Russia, especially considering the relatively good relations between the United States and India. This has been most

apparent in the close cooperation between China and Russia in the SCO, the strategic alliance against hegemony and that China would like to increase its cooperation with Russia concerning the oil and gas industry.¹⁶

Since several of the Central Asian states could potentially have fallen into a dependency relationship with China in regard to military development, the US involvement in the region has been viewed positively by the Central Asian governments.¹⁷ They have received some military aid from America and can probably expect more attention in return for cooperation with America in the war against terrorism. The earlier Chinese strategy to limit US involvement in the region has suffered a severe setback and the only possibility for China to succeed is to make it politically impossible for the United States to stay in the region after the terrorist threat is under control (which is a matter of perception) or use the SCO to manoeuvre the United States out of the region.¹⁸

Beijing has been actively seeking to exert military, political and financial influence in Central Asia ever since the USSR was dissolved in 1991. China's realpolitik philosophy is that the international system is characterized by a constant struggle for domination, and that China must engage in that battle, its main adversary being the United States. China is, at present, a regional power with global aspirations, and if it continues on the path of economic growth and projection of influence, its aspirations may be realized.

Chinese President Hu Jintao has even touted Central Asia's centrality to Chinese development, a sentiment which probably accounts for the recent joint military exercises, increased political cooperation and increase in trade. Some compare recent Chinese involvement there to modern vassal relations through investment, trade and military cooperation, in which China uses Central Asia as a buffer zone and an economically integrated entity which will help to advance the Chinese global agenda.¹⁹

In the last decade, China has taken a more active role in the international system, marking a transformation in its foreign policy.²⁰ It has expanded bilateral relations, joined regional and economic organizations and intensified its participation in multilateral organizations. China attaches great importance to the SCO partnership with its neighbours in Central Asia. As a co-founder, China anticipated this organization to be a platform where broad cooperation among all countries and regional organizations can be sought. It originally started with functional issues, including the demilitarization of the Sino-Russian borders, tackling drug trafficking and boosting intraregional trade. It is absolutely true that the creation of the SCO reflects the Russian and Chinese shared security interests in Central Asia, but has not for the time being focused on the issue of energy security, an indispensable element of Beijing's global geostrategy. What are the prospects of this problematic? First we should look at the way China views Central Asia.

1 Chinese strategic interests in Eurasia

Eurasia, herein defined as Northeast and Central Asia, has been ravaged by historical and current conflicts of both a military and a political nature, such as Japan or Russia's occupation of their neighbours, border disputes, etc. This has created an environment where there is a chronic lack of trust among the regional actors and relations are often seen as a zero-sum game, or in relative gains. From an international perspective, it is symptomatic that there is very little cooperation in the military and political fields. For instance, Northeast Asia has no institutionalized regional organization that deals with political and military conflicts whereas transregional organizations that include cooperation between Northeast Asian and Central Asian states are limited to only exercises against terrorism.¹ There have been several organizations initiated in Central Asia working on cooperation but their viability is limited. This is due to limited political support from the respective Central Asia governments and also because of the intraregional rivalry between the five Central Asian states.² Thus, these organizations remain relatively weak and their future prospects uncertain. In order to have conflict management and resolution frameworks in place, and to establish greater trust between the different actors, these organizations would need to integrate deeper into the region, politically and economically.

Since the end of the Cold War, Central Asia has emerged as a newly defined, separate geopolitical space. Its abundant raw materials, particularly oil and gas, and its unique geographic location give the region its importance. Nevertheless, the region was until recently as much geographically as strategically distant and indifferent to the United States and Europe. The events of 9/11 have catapulted the region into the world's spotlight and it has grown in strategic importance.

Since then, the United States has been activated as a major geopolitical player in Central Asia, in addition to Russia and China. Europe is deeply concerned and involved in the region and has the potential to become a fourth power. Turkey and Iran, having particular interests and influence thanks to historical vantages, should be seen as lesser powers in the region. As can India and Japan, who are quietly penetrating Central Asia in the economic sphere.