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The Dragon Looks West: China and Central Asia

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In September Chinese President Xi Jinping visited four Central Asian countries: Turkmenistan, Uzbekistan, Kazakhstan and Kyrgyzstan. During the visit, he signed billions of dollars worth of deals with the energy rich Central Asian countries. In recent years China has invested heavily in Central Asian energy projects as a way to decrease its dependence on the volatile Middle East. Beijing is concerned over possible disruptions to Middle Eastern oil and gas imports in case of conflict between Iran and the West, as well as the possible spread of unrest from countries like Syria. Several observers have noted China's concern over a possible closing of the Straits of Malacca in the event of regional conflict or other disruptions, such as a maritime accident or piracy. China's energy supplies are vulnerable, and Beijing is seeking to bypass this strategic 'choke point'. The Chinese military views the Straits of Malacca as particularly vulnerable.¹

Maritime disputes and America's naval build-up in Southeast Asia have heightened China's fears of access to the straits. In a crisis, Chinese military experts speculate the United States and its regional allies could close the straits to shipping, depriving China of vital resources.

China's navy believes that it will be years before it could have the capability to prevent such action. China has looked at several potential remedies in the past, including the building of an Asian version of the Panama Canal in Southern Thailand, and a gas pipeline in Burma. However, despite being talked about for well over a decade the canal has yet to materialize, while the US\$ 2.3 billion China-Burma pipeline only slightly reduces Beijing's dependence on the straits. Burma's natural gas supplies can meet only a small fraction of China's growing energy needs.² This has led to continued anxiety among Chinese security planners and a quest for other alternatives.

The Central Asia Option

China is expected to surpass the United States as the world's largest consumer of oil by 2017.³ In 2012, China imported 5.1 million barrels of oil a day from abroad, mainly from the Middle East and Africa. China imports more than 60% of its oil with the remainder made up by domestic production.

* The views expressed here are strictly his own.

1 Ian Storey, "China's 'Malacca Dilemma'" (*China Brief*, Vol. 8, Issue 8, 12 April 2006); You Ji, "Dealing with the Malacca Dilemma: China's Effort to Protect its Energy Supply" (*Strategic Analysis*, Vol. 31, Issue 3, May 2007).

2 "The Kra Canal: Thailand's \$25 billion Question" (*Asia Times online*, 10 September 1999); Leslie Hook, "China Starts Importing Gas from Myanmar" (*Financial Times*, 29 July 2013).

3 Javier E. David, "China battles US over dubious title: Biggest oil importer" (*CNBC*, 25 August 2013).



China's energy imports from the Middle East and Africa transit the Straits of Malacca, making them vulnerable to possible disruptions. To address this, China has begun to look to Central Asia as an alternative route. Patient and skillful diplomacy, topped with generous financial incentives, has slowly opened the region to China. In 2006 Beijing's efforts paid off when China and Kazakhstan signed a deal to build a 3000-km pipeline to transport Kazakh oil and gas to the western Chinese province of Xinjiang.⁴ Since then, China has gained a significant presence in the country's energy sector, with some experts estimating that 50% of the Kazakh energy sector is now owned by Chinese state-owned companies.⁵ In July the two countries signed an agreement to expand the pipeline and double production. Kazakhstan possesses the world's 10th largest oil reserves and the 14th largest natural gas reserves.

By mid-2014, the expanded pipeline could also transport Russian oil to China, linking China to one of its main oil suppliers. Early this year several sources reported that Russian oil company Rosneft was negotiating a US\$ 35 billion loan from China. Rosneft intends to use the loan to buy off several of its rivals. In exchange, Russian oil supplies to China would double, from 109 billion barrels now to 219 million barrels a year by 2018.⁶ Russia is the world's second-largest gas and oil exporter. President Xi's September visit to Kazakhstan included energy agreements worth a staggering US\$ 30 billion. These included soft loans of US\$ 9 billion by the China Development Bank and China Export-Import Bank.⁷

In 2009 China finished construction of the multi-billion dollar Turkmenistan-China pipeline. The 1840-km pipeline crosses neighboring Uzbekistan and Kazakhstan, and will take oil and natural gas to Xinjiang. In 2012 Turkmenistan became China's main source of natural gas, providing over 50% of China's gas imports.⁸ According to Xiao Qinghua, China's ambassador in Ashgabat, Turkmen natural gas exports to China will rise to 65 billion cubic meters by 2020. Turkmenistan has the world's fourth-largest gas reserves.⁹ Moreover, Iran, which is the world's third-largest oil and gas exporter, is already linked by pipeline to Turkmenistan. Hence, the Turkmenistan-China pipeline could eventually link to Iran.¹⁰

Unlike Western countries, China has shown a remarkable knowledge of the region's unwritten rules and norms by building strong links with local elites. China has also invested heavily in Uzbekistan's oil sector. During President Xi Jinping's visit to Uzbekistan deals worth US\$ 15 billion were signed, and these pave the way for further Chinese investment in oil, gas and uranium exploration. Major infrastructure projects such as roads and bridges to be developed with Chinese loans are also planned.¹¹

While not rich in resources, Kyrgyzstan and Tajikistan are also important as energy crossroads to Western China. Reflecting this, the Chinese leader's visit to Turkmenistan included celebration of the opening of two new pipelines traversing Tajikistan and Kyrgyzstan. Thanks to these routes Central Asian gas and oil is now transported to China via four different routes. With these expansions China aims to minimize its dependence on a single route in case of disruption in one of the routes. However, three of these routes pass through Uzbekistan, a country Beijing has been carefully courting for over a decade.

Tajikistan and Kyrgyzstan are also important because their territory borders the restive Chinese province of Xinjiang. In the past, separatists have attacked Chinese businesses in Kyrgyzstan and organized anti-Chinese activities from these countries. By bringing Tajikistan and Kyrgyzstan into a Sino-centric world, Beijing hopes to stabilize these poor countries, and in the process stabilize its Western border. During his stopover, Xi's offer a US\$ 3 billion loan to Kyrgyzstan to facilitate the country's integration into this emerging 'backyard'. The money will be used to build a thermal power plant, an oil refinery and a national highway.¹²

While Central Asia is fast emerging as China's main source of gas and oil, the Middle East and Africa remain very important. Energy resources from these regions also traverse Malacca on their way to China. To bypass this choke point, China and its long term ally Pakistan are planning a Xinjiang-Gwadar development corridor.¹³ Beijing has funded the construction of the port of Gwadar in the Pakistani province of Balochistan, at a cost of US\$ 248 million. The port is strategically located at the eastern approach of the Persian Gulf in close proximity to Iran and Saudi Arabia. The Gwadar development corridor feature an extensive network of roads, railroads and pipelines, in a network connecting the Persian Gulf to western China, allowing Chinese tankers to avoid the straits.

The Gwadar corridor is also likely to transport oil and gas from other emerging energy suppliers, such as Mozam-

4 "China President Opens Turkmenistan gas pipeline" (*BBC News*, 14 December 2009).

5 See Alexander Cooley, *Great Games, Local Rules: The New Great Power Context in Central Asia* (Oxford University Press, 2012).

6 Dmitry Zhdannikov and Vladimir Soldatkin, "Russia plans \$25-\$30 billion oil-for-loans deal with China" (*Reuters*, 13 February 2013).

7 "China, Kazakhstan to ink deals worth \$30 billion on Saturday" (*Reuters*, 7 September 2013).

8 Bai Tiantian, "Gas deal to double Turkmen imports to China" (*People's Daily*, 5 September 2013).

9 "China is Turkmenistan's largest trading partner and gas market" (*CCTV*, 3 September 2013).

10 "Turkmenistan opens new Iran gas pipeline" (*BBC News*, 6 January 2010); Marat Gurt, "Turkmen gas company says flows to Iran restored" (*Reuters*, 16 November 2012).

11 "Xi Jinping signs deals worth US\$15b in Uzbekistan" (*AFP*, 10 September 2013).

12 "China expected to allocate \$3 billion to Kyrgyz projects" (*AzerNews*, 13 September 2013).

13 "Gwadar corridor in focus as Sharif heads to China" (*The Hindu*, 30 June 2013); Hu Zhiyong, "India wears unreal 'String of Pearls'" (*Global Times*, 28 July 2013).



bique in the Indian Ocean, where China has recently invested US\$ 4.2 billion in the gas sector.¹⁴ However, China is taking a significant risk by investing in a region that has experienced chronic instability, and it remains to be seen if the Gwadar corridor will be worth the investment – or even if it will become reality.

China's growing investment in the region could bring tremendous benefits for Central Asia, even contributing to the stability of countries like Afghanistan and Pakistan. As the United States prepares to withdrawal from its costly occupation of Afghanistan, Chinese growing economic engagement with the region may have some positive effects. A stable Central Asia would provide Afghanistan with a better external environment. China has gained several lucrative contracts in Afghanistan, such as the US\$ 3 billion deal to develop the Mes Aynak copper mine. As a consequence, China has a stake in Afghanistan's stability.¹⁵

China, the United States and other regional powers, such as Russia and India, have strong reasons to want a stable

Afghanistan. China's intimate ties with Pakistan and their all-weather relationship can be a positive influence in pushing Islamabad to play a constructive role in Afghanistan. Meanwhile, Iran is a country that holds considerable influence among the Hazaras and Baloch, ethnic groups that account for 12% of the Afghani population, and who also enjoy close ties with Beijing.

While in Southeast Asia Sino-American interests may be at odds, in Central Asia the interests of the two world powers are beginning to converge. Granted, there are differences and challenges. However, possibilities for cooperation exist, and should not be overlooked. China's clout in Central Asia will continue to rise in coming years, and Beijing's actions will be crucial for the future of this vital region of the world. For sure, while energy security is the prime motivator behind Beijing's offensive in Central Asia, its interests are becoming more complex.

14 Stephen Jewkes, "ENI opens up Mozambique gas riches to China" (*Reuters*, 14 March 2013).

15 Zhao Huasheng, "China and Afghanistan: China's Interests, Stances, and Perspectives" (CSIS, March 2012).

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