The Eurasian Energy Triangle: China, Russia, and the Central Asian States

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RELIABLE ACCESS TO ENERGY TO meet growing demand is a vital Chinese interest that cuts to the heart of the Chinese leadership's most basic domestic and foreign policy obsessions. China's goal of securing stable energy relationships with central Asian states is thus closely tied to the internal security of the P.R.C. itself. Yet while China's energy deals elsewhere are bilateral, in central Asia, they invariably include a third player: Russia. Russia's determination to control central Asian energy activities for its own interests constrains China's ability to deal directly with local suppliers. Moscow holds a monopoly on gas and oil pipelines in the region, and it can shut off access at will. Since China must secure reliable energy access to maintain economic growth, and thus the legitimacy of the Chinese government, Russia possesses considerable leverage over China, which it is unwilling to surrender lest it be dwarfed by China's otherwise superior economic power. At the same time, Russia's attempts to control China's access to central Asian energy resources hinders both states economically.

Thus, while China and Russia collaborate against the United States in both northeast and central Asian politics, they are rivals in their central Asian energy relations, dampening economic growth and threatening China's internal security.[1] This is the driving dynamic behind Chinese policy in central Asia. This article will outline the relevant internal security concerns that China faces, especially those in Xinjiang Province, and then sketch out the issues that shape China's ambiguous

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economic alliances in central Asia and Russia. It will conclude with a discussion of current Chinese policies and projections of their future effectiveness.

Xinjiang's Role in Chinese Energy Politics

Chinese policy in regards to Xinjiang is a prime example of the way in which energy access influences China's central Asia policy. Xinjiang, a Chinese province bordering central Asia, "is becoming a primary source of energy for the Chinese economy—Xinjiang's oil resources are vital to China's future energy security."[2] Yet, Beijing perceives serious internal and foreign threats to Xinjiang.[3]

Close ties with central Asian states are therefore needed not only to secure energy, but also to isolate Xinjiang from separatism, terrorism, and religious fundamentalism.[4] Chinese analysts explicitly tie Xinjiang's economic future and security to central Asia:

> For China, a central Asian state which is capable of overcoming its economic difficulties and getting out of its economic crises has a better chance of achieving economic prosperity and political stability. China can benefit greatly from its stable and prosperous neighboring states. Only when central Asian states are politically stable and economically prosperous can Sino-central Asian economic cooperation be conducted effectively and smoothly. Such economic cooperation can and will speed up economic development in the northwest of China. It can therefore be argued that *to a large extent the stability and prosperity of northwest China is closely bound up with the stability and prosperity of central Asia*. It is, rightly, because of this consideration that China advocates and promotes active trade and economic cooperation between China and central Asian states for common economic prosperity.[5]

Furthermore, recent Western research strongly suggests that Xinjiang's problems will worsen over time and develop beyond simple unrest if not confronted by Beijing.[6] Beijing sees energy deals tying Xinjiang with central Asia as essential leverage to prevent those states from encouraging factions that support the unrest in Xinjiang. It also sees them as necessary in order to provide the economic growth that China's leaders believe is the antidote to ethnoreligious agitation.[7] Beijing must also tighten security in Xinjiang to protect its pipelines—which provide access, particularly, to Kazakh oil and Turkmen gas and pass over Xinjiang to reach the interior and coast—from sabotage:

> The logical consequence of increased dependence on oil originating in Kazakhstan is tightened security in Xinjiang, as well as the perception that China's security interests extend well beyond the Chinese border into Kazakhstan. This, in turn, may encourage a buildup of PLA forces in Xinjiang, especially along the border, in areas with large ethnic-minority populations.[8]

Thus, Chinese policies toward central Asia, and especially its energy policies, are heavily driven by considerations of internal security and the threat of separatism and unrest in Xinjiang.

Geopolitics and Alliances in Central Asia

However important the issue of Xinjiang, geopolitical motives may figure even more prominently as determinants of Chinese policy towards central Asia. As a rising power with big ambitions and as an energy importer with exploding demand, China must be able to enjoy reliable supplies of gas, oil, electricity, and other resources.[9] Because most of China's imports come from the often volatile Middle East, China's energy security depends on the good offices of the U.S. Navy. This worries Chinese policymakers, who openly fear that energy vulnerability gives Washington a potential weapon with which to contain China. Additionally, they realize that strife in the Gulf could cut off vital energy sources.[10] In fact, undersecretary of state Robert Zoellick recently warned China that pursuing energy deals with Iran risks conflict with Washington.

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These reactions to China's maneuvers on the energy market greatly influence its foreign policy, engendering a reluctance to rely on market mechanisms and a preference for owning energy sources outright, from the wellhead to the end of the pipeline.[11] For example, China increasingly ties equity investment to long-term supply contracts to ensure reliable access and guard against price shocks.[12]

As Phillip Andrews-Speed and Sergei Vinogradov concluded, "[t]he key driving force from the government's point of view is the desire to enhance the security of the country's petroleum supply through owning both the resource in the ground and, where relevant, the transport network."[13] China, through its "go out" strategy, normally seeks a share of the annual oil output by becoming a direct investor or shareholder in order to shield itself against significant oil input price fluctuations by securing long-term, fixed contracts.

Furthermore, Beijing's answer for avoiding excessive dependence upon any one producer or region is to diversify its sources of access to energy. Apart from expanding energy relations with the "usual suspects" in the Gulf—Saudi Arabia, Iraq, Iran, and the United Arab Emirates—China is also diversifying by buying equity holdings in African states' oil, especially in Sudan and Libya, and in Latin

America—particularly Venezuela. Chinese gas and oil firms are also making deals in North and South America, as well as in Australia.[14] The government also has plans to develop a strategic petroleum reserve in order to maintain a short-term stock of reliable supplies at affordable prices. Similarly, China invests heavily in pipeline networks at home and abroad to buttress its control of the oil and gas shipped from central Asia, the Persian Gulf, and Russia.[15]

Chinese commitment to energy security has a military component as well. China has a long record of arms sales, including the proliferation of missile and even nuclear technology, to energy producers like Iran, Iraq, Saudi Arabia, and Sudan.[16] Its willingness to provide military assistance and even to commit its own forces beyond its borders to central Asia fits with this policy and suggests a potentially forceful reply to threats to China's energy supplies.[17] This strategy has its risks—these countries' energy resources alone cannot sustain China, and such arrangements risk putting China at odds with the United States.[18] However, China may judge it in its interest to continue substantial support for policies of proliferation to anti-Western regimes in an effort to ensure reliable energy supplies.

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Consequently, central Asian energy becomes much more attractive because the U.S. Navy cannot block its flow to China. This explains why China is building pipelines from Kazakhstan to Shanghai. China's opposition to U.S. promotion of democracy in central Asia and elsewhere is clearly tied to Chinese domestic and energy concerns, given the instability this could bring to central Asia.[19] China's former Ambassador to Turkey, Yao Kuangyi, said in late 2004:

> Currently the countries of central Asia have quite good mutual political trust and cooperation with China. But central Asian countries are rather reserved about cooperation because of differences in understanding. A case in point is the transitional period in the next few years when there will be a changeover in political power in various central Asian countries. Maintaining handover of political power is an issue which directly affects our country's security.[20]

China's desire to support Islam Karimov's regime in Uzbekistan against both internal fundamentalist threats as well as U.S. calls for democratization is therefore understandable when one considers the role that it played in the signing of a $600 million energy deal in 2005.

Nonetheless, China's efforts to rectify its relatively unfavorable energy situation have complicated its foreign policy. Anticipating Chinese hegemony over central Asia, analysts like Guancheng Xing have assigned China a leading role in facilitating economic integration. In this light, China:

> should become a guide and a kind of courier station for the central Asian states in their dealings with the Pacific countries and guide them to more economic cooperation and trade contacts in the Pacific. The "second Eurasian bridge" is an important route for China to guide the central Asian states through to the Pacific. China should ensure that the economic development of its northwestern part is connected not only with that of central Asia but also with overall economic development in Eurasia. Looked at in this way, there is stronger motivation and greater scope for its economic relations with the central Asian states.[21]

However, central Asian states reject the argument that this relationship is to their benefit. As most Chinese economic trade is with Kazakhstan and Kyrgyzstan, they have become wary about increased dependence—a fact which clearly irks Beijing.[22]

Much evidence testifies to the strategic quality of China's energy policy. Although China's preferred instrument for most political transactions in central Asia is the Shanghai Cooperative Organization (SCO), energy deals are typically handled seperately from this context. Despite rhetoric about multipolarity, China refuses to multilateralize discussions about its access to energy. It has good reasons for not doing so; its success with both Russian and central Asian energy suppliers is inconsistent. In fact, Russia has regularly obstructed China's quest for independent access to, or ownership of, central Asian or Russian energy.

RUSSIAN CONCERNS OVER CHINESE ENERGY POLICY

Russia has many variables to track in its relationship with China as it attempts to stop Chinese energy purchases in central Asia while monopolizing local pipelines for its own use. These strategies are vital for Russia because its production costs are too high to compete on a level playing field. Additionally, Russian energy producers have steadily rebuffed China's projects for obtaining energy supplies, unwilling to become merely China's source for raw materials, and demanding equal status in economic-technological exchanges with China.[23] Russia is also determined to maintain autarkic control over energy firms, its strategic resources, and the ability to manipulate prices in its favor by acting as a monopolistic producer. Sergei Kuprianov, Gazprom's press secretary, stated in 2004 that:

> [s]haring mineral resources with foreign companies is against our policy.... In fact,

> sharing oil with the Chinese would be even more inappropriate. After all, their stake in Yuganskneftegaz [the former main asset of the now-defunct Yukos energy company] could complicate future price negotiations [for oil purchased by CNPC].[24]

Russian officials also blocked the sale of Slavneft to China, successfully destroyed Yukos—a company that favored a direct Sino-Russian oil pipeline—and for some time appeared to be winning the policy struggle over oil sales to Asia by proposing a much more expensive pipeline to Nakhodka (a sale partly subsidized by Japan).[25]

Chinese buyers will then have to buy from Japan, rather than directly from Russia. Similarly, Russian and U.S. energy companies continue to obstruct China's efforts to buy energy holdings in central Asia, forcing China to depend on external suppliers.[26]

In this same way, Moscow has regularly sought to monopolize the transport of Kazakhstan's enormous oil and gas deposits, oppose Kazakhstan's participation in the Baku-Ceyhan Pipeline System (BTC), deprive Turkmenistan of the free choice of markets and pipelines for its gas, and obstruct efforts to build pipelines that would connect Turkmenistan with Pakistan and the Indian Ocean.[27] Moscow has generally adopted monopolistic behaviors vis-à-vis the transport of central Asian and Azeri energy resources by regular efforts to coerce those states. Indeed, in November 2005, Gazprom concluded a deal with KazMunaiGaz, Kazakhstan's main gas and pipeline firm, to increase transit of Turkmen and Uzbek gas via Kazakhstan so that Gazprom will control virtually all of central Asia's gas exports. While observers say that this is aimed primarily at the Ukraine, it will also constrict Chinese options in central Asia.[28]

Russian leaders also know that if they fail to be competitive economic players in East Asia, they will similarly be at a serious disadvantage both at home and in central Asia. In 1998 the Kazak political scientist Nurbulat Masanov wrote that:

> U.S. and Western trans-national corporations are active in the exploration of central Asian resources and are particularly interested in reducing Russia's influence in the region. When new transport routes, such as the Trans-Caucasus corridor, become operational, Russia is expected to experience serious negative consequences. The point is that the flow of export goods from central Asia across Russia, unites the Urals, the Volga region, Western Siberia, and the Far East into a single complex. If this flow takes alternative routes *it is quite possible that the territorial integrity of Russia will be endangered. And with China playing a larger role in the eastern part of Russia, this process is fraught with even greater unpleasantness.*[29]

Deputy prime minister Aleksei Kudrin warns that if Russia fails to become "a worthy economic partner" for Asia and the Pacific Rim, "China and the Southeast Asian countries will steamroll Siberia and the Far East."[30]

Beyond that, Russian failure to undermine alternative producers of central Asian energy undermines both its domestic energy economy and the political structure that rests upon it. Mikhail Khodorkovsky, Yukos's Chairman and CEO, told the Carnegie Endowment in 2002 that a key reason for high costs of Russian oil is transportation, noting that there is a pressing need for marketization and liberalization of the industry.[31] As Moscow will not relinquish control of the pipelines, Russian oil costs will remain high and deprive Russia of markets even as Russia attempts to "push aside" other producers by expanding its pipeline network.[32] Khodorkovsky conceded that Caspian oil is indeed competition for Russian oil; if Caspian energy enters onto markets before Russian energy capabilities are developed, the Russian oil will not be able to compete.[33] It is therefore urgent that Russia restrict central Asian production to mainly, or even exclusively, Russian channels, lest Russian oil and gas lose out to independent central Asian producers that are not burdened by wasteful monopolistic organization and dilapidated infrastructure.[34]

Courtesy of Suzanne Smith

A pipeline facility in the former USSR. Post-Soviet states see their crumbling oil infrastructure as a gateway to the future.

Central Asia's abundant energy deposits, if marketed abroad, are large enough to restrict Russia's ability to compete in world markets—particularly the markets of India, Japan, China, and South Korea, which are widely expected to surge in the next 20 years. Given the importance of oil and gas to Russia's economy, that would be catastrophic. It is therefore not surprising that, despite the rhetoric proclaiming mutual interests and eternal friendship in high-level Sino-Russian meetings, the reality of relations between Moscow and China has been a climate of mutual suspicion and tough bargaining. President Vladimir Putin has at least twice publicly voiced suspicion of Chinese economic power in Asia, and Russian officials have publicly opposed any Chinese military presence in central Asia.[35] Indeed, Russian sources revealed in August 2005 that one reason for Moscow's haste in seeking to enter the former U.S. base at Karshi Khanabad in Uzbekistan was because China had made discreet, but clear, expressions of its interest in doing the same.[36] While China avoids overt acts that trigger suspicions about its central Asian goals and appears to support Russia's dominant position, facts on the ground suggest mutual irritation and suspicion.[37]

Many Russian policies have led some Chinese analysts to conclude that Russia is ultimately unreliable.[38] Russian leaders want to sell China their energy because they want the market and the leverage. Otherwise they have only arms sales for leverage vis-à-vis China, but these anger Japan and leave Russia dependent upon a single, monopolistic energy consumer. Evidence suggests that Russia hopes to build a Siberian pipeline first to China and then to branch off to Japan, so that Russia retains ties to Japan without depending exclusively upon China. Still, Russia's constant flirtations with both states make this an inherently unstable situation that could deteriorate for both political and economic reasons.[39]

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Although Chinese talks with Russian suppliers continue to focus on projects in Russia or cooperative ventures abroad, dependence on Russia would contradict a Chinese policy that seeks to maximize the reliability of long-term supplies. China has duly followed a course of diversification. As China must now depend upon outsiders, it has reacted accordingly and sought enhanced ties to central Asia outside of Moscow's purview. But again, the results have been checkered, for China must then deal with local suspicion toward its policies.

CHINA'S APPROACH TO CENTRAL ASIA

Although China's record of achievement in central Asia is inconsistent, it continues trying to enhance its presence there.[40] For example, in late 2002, China National Petroleum Company (CNPC) acquired a 50 percent share in Salyan oil through its various affiliates. In January 2003, CNPC acquired a 31.41 percent share in the Azeri project "Canub-Qarb Qobustan."[41] CNPC and Sinopec, a publicly listed oil and chemical firm, are both seeking properties in Azerbaijan and the Caspian Sea. However, these projects hardly give China a commanding position in Azerbaijan's energy holdings and do not overcome the difficulty of getting reliable access to pipelines.

Chinese efforts to gain access to Kazakhstan's holdings have been problematic as well. In 1997, CNPC purchased a 60 percent stake in the Aktobemunaigaz firm of Kazakhstan, intended to be the source for an extensive oil and gas pipeline system. However, this project encountered several difficulties, and by 1999 there was talk of its cancellation.[42] Since then, the project has been reinstated, in part due to Russia's failure to deliver on its own promised oil pipeline. Now given a greater priority, the pipeline is currently being built to Keniak in Xinjiang, from where it will eventually connect to Atyrau and China's interior.[43] This is the centerpiece of China's holdings in Kazakhstan, but the cost to build this pipeline through rugged and austere terrain and to secure it against natural and man-made disruptions is enormous. This project also underscores the vagaries of trying to line up equity in central Asian energy, since once this contract was signed and difficulties began to appear, Russian companies like Yukos offered to undercut Kazakh oil and gas, in an effort to deprive Kazakhstan of a potentially enormous market, forcing it into greater dependence upon Moscow—an outcome unfavorable to Beijing and Astana alike.[44]

The full significance of China's dependence upon foreign gas and oil from Russian sources, however, became clear in 2003. The war in Iraq underscored the vulnerability of supplies from the Persian Gulf. At the same time, China also learned a major and unpleasant lesson when Western companies excluded it from the bidding for lucrative holdings in the Kashagan fields in Kazakhstan and the Caspian Sea. Both China and Russia were forced to reconfigure their energy ties.[45] By this time, China had initiated its own strategic petroleum reserve and was negotiating big deals with Australia, Saudi Arabia, and Iran. It had concluded negotiations with an international consortium to develop and ship natural gas in the mammoth West–East pipeline to take gas from Xinjiang to Shanghai, offering opportunities for further purchases of equity holdings in central Asian gas finds and existing fields.[46] Pipeline construction in Kazakhstan likewise accelerated. Kazak oil and gas became more attractive because:

> More recently, the completion of the Neka–Tehran pipeline offered the possibility of oil swaps of Caspian and Iranian crude to cut transport expenses from the Caspian Basin to China. Caspian crude would be transported to Iran, while a corresponding amount of Iranian crude would be transported to China by ship. Analysts speculated that these oil swaps would cast doubt upon the construction of a massive China–Kazakhstan pipeline. However, that pipeline (Atasu-Alashankou) seems poised for completion.[47]

Indeed, the pipeline was completed at Altaw Pass in Xinjiang, which is expected to become a hub for rail, road, and pipeline networks, tying together China's aforementioned concerns for Xinjiang and energy security.[48]

China will probably retain its interests in both Azerbaijan and Kazakhstan to maintain ties to both countries and avoid excessive dependence upon any one supplier or pipeline. However, in Kazakhstan in particular, there is local resentment of

Chinese high-handedness, labor policies, and economic penetration of what is one of Kazakhstan's poorest provinces. This resentment adds to fears that Chinese workers will privatize the land that is now being sold out of government control. Thus, Kazakhstan would like to get a 51 percent controlling share in any oil pipeline construction to China.[49] It remains uncertain that all will go well with what has been an expensive and troubled project from the start.

More recently, China has sought to buy the oil company PetroKaz from its former Canadian owners. Just as Washington reacted negatively to Chinese efforts to buy UNOCAL and thereby gain access to its Southeast Asian oil fields, Kazakhstan's reaction has been increasingly negative, and its legislature rushed through a law empowering the Kazak government to preempt that sale. It appears that KazMunaiGaz, Kazakhstan's state oil company, "is also expected to seize a sizable chunk of PetroKaz from CNPC. Control over the Shymkent refinery, purchased by PetroKaz in 2000, will almost certainly revert to the state."[50] As Dmitry Lukashov, a Russian oil analyst at the Aton Brokerage House, observed, only naive investors would believe that Kazakhstan would let China walk away with 100 percent of PetroKaz because "fear of China with its huge population and growing economy runs deep in Kazakhstan."[51] Worse yet, Lukoil, Russia's main oil firm, also tried ultimately and abortively to tie the sale up in a Canadian court, again showing Russia's strong opposition to China's control over central Asian energy sources.[52]

New Trends in Chinese Policy

Under circumstances of enhanced geopolitical rivalry with Washington and increased energy rivalry with Moscow, China has opted for Moscow and against Washington. Perhaps China believes its superior economic performance will ultimately force Russia to give it access to energy fields or sell it even more energy directly. This strategic decision also reflects Chinese obsessions about possible instability and even democratic revolution in central Asia. It also reflects heightened anxiety for its other vital interests, namely keeping both U.S. forces and the U.S. democratization ideology out of its peripheries.[53] Those considerations evidently outweigh the need for immediate direct access to central Asian energy. Meanwhile, in light of these trends, China's recent policy initiatives in response to regional events reveal several new departures from past policies.

Since the Andijon massacre of 13 May 2005 and the Kyrgyz revolution, several significant movements in Chinese policy can be discerned.[54] First, China has abandoned its earlier reticence about former Russian Prime Minister Yevgeny

Primakov's strategic triangle with Russia and India, agreeing to a meeting of foreign ministers of the three states in Vladivostok on 2 June 2005. Second, China has pushed to invigorate the SCO to use it as an agency for both bilateral and multilateral action, to suppress popular unrest in central Asia, and to strengthen it as a bulwark against Western ideas and democratization policies. As part of this program, China has supported the SCO decision to make India, Pakistan, and Iran observers of the SCO.

Third, China continues to upgrade its military capability, particularly in regard to the dispatch of rapid reaction forces. The widely reported (though publicly denied) Chinese plan to gain control of a base in Kyrgyzstan may yet come to fruition, possibly as an SCO base rather than a purely Chinese one.[55] China has also covertly expressed interest in replacing U.S. forces in Karshi Khanabad when they vacate that Uzbek base.[56] China is also more ready than ever to put its forces at the service of its interests, if necessary. China's calls to upgrade the SCO's capabilities and its combined exercises with Russian forces in August 2005–ostensibly in an anti-terrorist scenario, albeit one that looks suspiciously like an anti-Taiwanese, U.S., or even Korean landing operation—also suggest heightened concern about trends in central Asia.

Fourth, China has substantially enhanced its ties to Iran. The two signed a $70 billion energy deal in October 2004, and *Jane's Intelligence Digest* speculates that the price may rise to $200 billion before it is finalized.[57] This policy not only strengthens Iran against Washington, but also reinforces a shared interest in restricting the U.S. ability to play in central Asia. Iranian elites certainly welcome the idea of a bloc with China, Russia, and India against Washington. Finally, there will probably be intensified courtship of Moscow and vice versa, not just on the basis of the SCO, but on a bilateral basis as well, including military and energy cooperation.

China's new policy initiatives represent significant new departures, even though they clearly grow out of preexisting policies. First, they speak to the increased importance of developments in central Asia upon Xinjiang and Chinese internal security. Second, they point to the increasing and widening rivalry with the United States and Russia, and China's effort to build counter-coalitions against what it perceives to be U.S. encirclement and potential threats on its doorstep. Third, these policies highlight the strategic importance to China of energy access. While this is a critical long-term issue, and certainly will be a major driver of future policies, it still takes a back seat to geopolitical and ideological concerns about Washington. Last, these initiatives underscore the increasing militarization and strategic polarization of the central Asian and post-Soviet space as rival security blocs take shape. The SCO, China's first formal show of willingness to project power beyond its borders, is but one manifestation of this trend, as are its 2003–2005 exercises and growing military links among all of its members.

Conclusions

China's energy interests in central Asia are extensive, but it faces considerable difficulties in realizing them. Although neither Russian nor central Asian regimes will grant China control over their energy assets, even as they are willing to sell the products of those assets, China will—at least for the moment—overlook that fact, in order to sustain strategic anti-U.S. partnerships. Despite energy's importance, Russian resistance to Chinese plans will not derail their partnership against both the U.S. political-military presence in central Asia and Washington's democratization drive.[58] Nor will partnership in northeast Asia suffer unduly from these tensions as long as China can ultimately gain reliable access from, if not equity ownership in, Russian energy firms.

If other sources of tension with Russia grow, however, China will not forget how Moscow blocked its energy security. Today, we cannot tell how all of the cross-cutting rivalries in central and northeast Asia will ultimately play out. Geopolitical and strategic interests as well as governmental perceptions of those interests, and not just questions of energy access alone, will determine whether China finds partnership or rivalry with Russia, the United States, and its central Asian neighbors. These perceptions of interest will go far to determine the future of China's energy partnerships in central Asia, but on the issue of China's long-term orientation and strategic destiny, the geopolitical jury is still out.

Notes

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