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## Central Asia in China's Energy Strategy

Antonio Fiori

In the last three decades the People's Republic of China (PRC)'s economic performance has been extraordinary. The country has enjoyed double-digit annual economic growth since the launch of economic reforms and openings at the end of the 1970s until 2010, becoming the second largest economy in the world. China's nominal GDP climbed from US\$440 billion in 1993 to approximately US\$13,400 trillion in 2019 (IMF 2019). This record growth, which has allowed China to become the world's largest exporter and manufacturer, is commonly attributed to factors such as market-oriented reforms, enterprise ownership changes, and the adoption of an export-oriented and foreign direct investment (FDI)-led development strategy.

This growth, however, needs to be adequately and constantly nurtured by a reliable energy supply. In parallel with its economic development, China's presence in world energy markets has increased as rapidly as its energy needs, especially since the turn of the millennium. In 2010, the PRC surpassed the U.S. as the world's largest energy consumer, accounting for 23 percent of global energy consumption and contributing 27 percent to global energy demand growth in 2016 (BP 2017a). In 2009, Chinese energy consumption per capita was just 20 percent of U.S. per capita use; however, over the past decade Beijing's per capita use has risen sharply, by over 130 percent (Cohen and Siu 2012). Based on the country's rapid urbanization trend, the United Nations projections indicate that already by 2030, the Chinese urban population will total close to 1 billion people (UN 2018). This scenario would generate a potentially dramatic increase in per capita energy consumption, with severe environmental consequences mainly in terms of an average increase in CO<sub>2</sub> emissions per capita. As a matter of fact, the rapid rise in China's demand for energy has been mainly met by "dirty sources," which is an undesirable yet unavoidable option (Cohen and Siu 2012; Wang and Li 2005). Coal, in particular, is still the major source of energy in

China, accounting for 59 percent of its energy consumption, even though this is the lowest share on record (Hao and Baxter 2019). Beijing's demand for every primary energy sources is forecasted to increase over the next decades but the basic structure of the country's energy mix is not expected to alter significantly, unless a series of political and technological changes were to make other fuels more competitive. Though oil accounts for only 20 percent of its total energy consumption, China is highly dependent on crude oil supplies—the dependency ratio rose to more than 70 percent in 2018, the highest in history—the stability of which it has not yet adequately secured (Shuo 2018; EIA 2015). Oil is the PRC's second-largest energy resource and it has become vital to the support of the industrial and building sectors, as well as transportation in the context of China's current transformation of the automotive business model.

Given China's reliance on hydrocarbons, the country's growing oil deficit is at the heart of its energy insecurity. As a result, the PRC's foreign policy has been largely influenced by efforts to reduce its dependence on oil imports and to secure and diversify energy supplies. Although China is the world's fifth largest producer of petroleum and oil-related products (EIA 2018), the domestic output of which has increased thanks also to improved drilling technology, the country has gone from being one of the top exporters of oil outside the Organization of the Petroleum Exporting Countries (OPEC) in the late 1980s, to importing half of its oil needs by 2012. Indeed, two years later China became the largest net oil importer and its dependence on foreign provisions is estimated to rise from 71 percent in 2015 to 79 percent in 2035 (BP 2017b) as demand is expected to grow faster than domestic crude supply. The Chinese market alone is responsible for 40 percent of the global increase in oil demand since 2000. Domestic oil demand is projected to steadily increase at an annual rate of 2.7 percent through 2020, slowing to 1.2 percent through 2030 (Reuters 2017). Since China's largest oil fields are mature and production has peaked, leading companies have shifted their focus to developing largely untapped reserves in the western interior provinces and offshore fields. Acceleration of both in internal exploration and production led domestic oil production to reach an all time high of almost 4.5 million barrels per day (bbl/d) in 2016, then

decreasing to the actual 3.89 bbl/d (Trading Economics 2019). Nevertheless, these improvements will only slightly offset declining internal production and imports will continue to play a necessary role in meeting the PRC's demand for oil. Against this background, China's national oil companies (NOCs) will face immense pressures, particularly due to the lack of a sufficient Strategic Petroleum Reserve (SPR), the dramatic fluctuation of global energy prices and rising domestic energy prices (Global Times 2019).

### **The NOCs “go out” in Search of Diversification**

At the beginning of the 1990s, China was confronted with a dramatic new reality: to sustain its outstanding economic performance over the course of the previous decade, the country was no longer “self-sufficient” with respect to oil, and found itself incapable of meeting its needs solely with domestic production. In 1993, China's oil demand outstripped domestic supply and the country transitioned from being an oil exporting country to a net oil importer. This situation fundamentally altered China's entire energy outlook and pushed the country to be more actively involved in foreign energy markets. In addition, after having entered the group of oil-importing nations, China officially became a net energy importer in 1997 and a net gas importer in 2007 (in addition, rising demand drove the country to become a net importer of coal in 2009) (EIA 2015).

Against this background, Beijing had to come up with a strategy to stabilize and secure its access to foreign energy resources in line with the CPC's guiding principle of opening China to the outside world. Already in 1982, Hu Yaobang, then CPC secretary general, had announced that the Secretariat of the Central Committee had unanimously concluded that “to achieve modernization, China must utilize two types of markets, domestic and foreign markets, and master two types of skills—organizing domestic construction and developing foreign economic relations.”. Two years later, the Third Plenum of the 12th CPC Central Committee adopted the strategy enunciated by Hu as the framework for China's economic reforms. China's President, Jiang Zemin, endorsed this position, followed by Premier Li Peng who summed up the guidelines for the development of the

country's petroleum industry in an article titled "China's Policy on Energy Resources", making clear that "the development of the petroleum industry [in China] should place its basis at home and gear toward the world." The Chinese leadership believed that not only was the energy market characterized by instability, but also that the system was created and dominated by Western powers. Therefore, the implementation of a different plan, according to which it was possible to purchase direct control of imports, or of the transport systems through which China would import oil, was deemed necessary.

As a result, the Chinese government adopted the "going out" (*Zouchūqū Zhànlüè*) strategy, encouraging its oil companies to share overseas oil and gas resources (Xu 2006: 44-45), which reflected the general reform policies set in motion in the 1980s aimed at converting loss-making state-owned enterprises into a modern enterprise system through corporatization and the formation of large enterprise groups.

In 1982, China had established the China National Offshore Oil Corporation (CNOOC) to handle offshore exploration and joint contracts with foreign oil companies; the following year, the state-controlled ministries of Petroleum, Chemical and Textiles were incorporated to form the China National Petrochemical Corporation (SINOPEC), and in 1988 the Ministry of Petroleum Industry (MPI) underwent a restructuring process to form the China National Petroleum Company (CNPC). These NOCs were among the first groups encouraged to expand into world-class corporations and to pursue direct control over the oil produced in a given country (Lieberthal and Herberg, 2006). They have been involved in acquiring equity stakes in a number of foreign oil exploration and production projects, building pipelines and setting up long-term supply contracts, with the aim of enhancing direct control over energy supply (Chen 2008). The "going out" policy envisions government support for foreign investments on the part of NOCs that secure oil resources at the source and/or are involved in oil exploration and production. Consequently, China's overseas equity oil production has dramatically increased, from 140,000 bbl/d in 2000 to over 1.742 million bbl/d in early 2018 (Reuters 2017). Many Chinese think tanks and energy experts thus strongly

recommend approaches that secure direct control of oil (Lewis, 2007). One of the results of the “going out” initiative was that NOCs established footholds in Africa, Central Asia, and Latin America, in addition to strengthening their presence in the Middle East, thereby exponentially increasing the number of foreign upstream projects. In most cases, NOCs have shown the ability to choose their foreign ventures and acquisitions, based on business interests, and even when faced with deals involving low commercial feasibility but high strategic benefit, NOCs have closed them thanks to the government’s encouragement and support.

The “going out” strategy was carried out also through “summit diplomacy” since the Chinese leaders understood that they had to strengthen relations with other oil-producing nations. Indeed, China attaches utmost importance to leadership summits and bilateral meetings, through which it proves a high level of commitment to its energy projects. Back in 1995, the PRC was almost completely dependent on just two regions—the Persian Gulf and Asia Pacific—upon which it relied for fully 88 percent of its crude oil imports (Downs 2006). By 2005, however, China had begun to diversify its mix: the African continent accounted for 31 percent of China’s imports, with an additional 10 percent coming from the Americas and Russia; hence, all three regions became significant sources of China’s energy supply. However, this important development has not solved the PRC’s overall vulnerability, as Beijing is still heavily reliant on the Middle East, which is its main source of energy supplies. Because of that, China has dramatically increased its dependence on the Strait of Malacca, through which 80 percent of its oil imports must pass en route to the mainland. Due to its geographic conformation, however, the Strait represents a sort of bottleneck beset by numerous hindrances such as piracy, traffic jams, collisions (Lai 2009), and the concrete possibility of eventually being controlled or blocked by another, more powerful, actor.

China’s over-reliance on the Strait of Malacca and other sea lines of communication (SLOCs) is a key cause of anxiety for the central government. Therefore, strenuous efforts have been made to devise and execute policies to reduce dependence, including diverting transport routes away from the SLOCs and emphasizing land-based options, such as pipelines, over maritime

shipping because they are thought to be both cheaper and more secure as well as implementing policies to alleviate existing threats to strategic transport routes.

The bulk of China's oil pipeline infrastructure serves the more industrialized coastal markets and the northeastern region, but several long-distance pipeline links have been built or are under construction to deliver oil supplies from the northwestern region or from downstream refining centres to more remote markets in the central and southwestern regions (EIA 2015). In 2017, PetroChina managed a total of 82.374 km of domestic pipelines (51.315 km of gas, 11.389 km of refined products and 19.670 of oil pipelines) (PetroChina 2017).

Through the implementation of the "going out" strategy, the PRC has sought to diversify its energy import structure in order to decrease its dependence, expand its portfolio of crude oil suppliers and deal with transportation vulnerability by improving its domestic pipeline network. Moreover, Beijing has significantly increased NOCs refining capacities, which are crucial to the country's efforts to unlock its resources buried by geology and gain greater control over the oil production process. Therefore, the strategy clearly reflects worries over the reliability of international markets and oil price fluctuations as Chinese leaders believe that equity oil can be useful in times of market disruption or during price hikes to mitigate negative impacts on the domestic economy. In addition, the Chinese government hopes its NOCs will eventually increase the scope of their activities to the point where they can influence international energy markets and help Beijing have a much greater say in global energy trade. Finally, much of Beijing's financing of the global expansion of NOCs has relied on the State's foreign-exchange reserves (also called Forex reserves), valued at US\$3.13 trillion in February 2018, in an attempt to diversify them and internationalize its currency (Kong and Gallagher 2016).

## **China's relations with Central Asia at the Sunset of the USSR**

The political transformation caused by the dissolution of the Soviet Union created an unprecedented situation in political, economic and strategic terms for regional powers and China immediately tried to benefit from the origination of a *new* Central Asia. Unsurprisingly, the first reaction of Beijing was to reaffirm that the developments were to be considered “internal affairs” and a respectable choice of the people of those countries. On December 27, 1991, the government of the PRC recognized the independence of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan: a gesture that did not go unobserved by the new leaderships in Central Asia. Beijing's promptness in launching this “charm offensive” was due to the fear that the collapse of the Soviet Union could cause instability in the region and, eventually, have domestic repercussions for the Xinjiang Uighur autonomous region, given the militant Islam which was spreading in the area (Chu 2012). At the same time, China wanted to dispel every possible doubt and suspicion regarding its intentions and also prevent any possible recognition of Taiwan by the newly established republics by promoting its One China policy (Umarov and Pashkun 2006: 4). Diplomatic relations with the newly born republics were established without any hesitation between January 2<sup>nd</sup> and the 7<sup>th</sup>: China promptly sent a delegation headed by Li Lanqing, then Minister of Foreign Economic Relations and Trade, with the task of paving the way for close commercial relations and mutual cooperation (Zhu 2010: 122).

In March 1992 the president of Uzbekistan, Islam Karimov, made the first official visit to China of a leader from the ex-Soviet republics since their independence, followed in May and November by those of president Akayev of Kyrgyzstan and president Nizayov of Turkmenistan, respectively (Tian 1994: 317-320). Shortly after, Chinese foreign minister Qian Qichen reciprocated the visits to Kazakhstan, Kyrgyzstan, and Uzbekistan, along with Russia. High-level visits from Central Asia continued throughout 1993: in March the leader of Tajikistan, Rahmanov, visited Beijing, where he met with the Chinese president, Yang Shangkun. The two issued a joint statement regarding the basic principles for “mutual relations” with the central message that “the two sides



should not engage in any hostile actions against the opposite side, and neither side should allow a third country to use its territory to impinge upon the sovereignty and security of the other” (Clarke 2011: 110). The Chinese government decided to grant thirty million *renminbi* in aid and three million in humanitarian aid, even though Beijing’s economic relations with Tajikistan remained limited throughout the first phase of Sino-Central Asian relations. The main reason was most likely the civil war in the country, which kept Chinese entrepreneurs at a distance. Unlike China’s cold relations with Tajikistan, the first state visit to China of Kazakhstan president Nursultan Nazarbayev contributed to further consolidating relations between the two countries. Nazarbayev had already visited China in July 1991 as a member of a delegation from the USSR: sensing what was going to happen in the Soviet Union, the Chinese had given him special treatment, predicting how important this politician could be for the future of bilateral relations (Aitken 2009: 125). After having reassured Beijing that his official position saw Taiwan as an integral part of the PRC, Nazarbayev paid his first presidential visit to China in October 1993. The signing of a joint declaration promoting regional cooperation with Xinjiang represented the visit’s quintessence. China not only had become “Kazakhstan’s number one partner in economic cooperation,” in the words of its president, but it had made Beijing very satisfied by emphasizing cooperation in the fight against organized crime, drug trafficking, and international terrorism (Karrar 2010). This steady attitude between the leaders of the PRC and Kazakhstan, elucidated by Nazarbayev’s declaration according to which the two figuratively “spoke the same language,” was not matched by a similar feeling in the relations between Astana and Moscow. In the early 1990s, in fact, relations were turbulent, even though Nazarbayev managed to maintain a cordial entente with Yeltsin. The particular attention reserved by Beijing to Astana, apart from geographic and demographic reasons—Kazakhstan being the country in the region that shares the longest border with China and the second in terms of population—was justified by the fact that Kazakhstan had been less peripheral to Moscow than the other republics.

Beijing's concerns about Kazakhstan's policy were rooted in the fear that promotion of Kazakh nationalism would inflame Uighur separatist groups in Xinjiang. These groups had been quite active in Kazakhstan since the late 1980s and had coordinated a few terrorist acts in big cities, including Urumqi (Dillon 1997: 141). With outside support, in the early 1990s their assertiveness grew and in some Kazakh newspapers they began to claim that their struggle was not moved by the will to gain autonomy but to establish the Uighur's "motherland" (Liao 2006: 41). These continuous manifestations of unrest, such as the protest of thousands of Uighurs outside the Chinese embassy in Almaty in April 1993, complicated relations between China and Central Asia: Premier Li Peng's visit to the region, scheduled for April-May 1993, was deferred. Immediately, Central Asian states' leaderships understood to what extent these obstacles could hamper the development of relations with Beijing, which were highly beneficial from the economic and political perspective.

In April, Li Peng made his previously postponed trip to Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan and Mongolia, leaving Tajikistan aside because of the beginning of the civil war. In his speech before the Uzbek parliament Li mentioned the need to improve infrastructural connections (citing the "New Silk Road") and economic cooperation. In Turkmenistan, he investigated the possibility of constructing a gas pipeline to connect Turkmen gas fields with China, in this way counterbalancing the strategies of both Russia and the United States (Andrews-Speed et al., 2005: 58). In Kyrgyzstan, the Chinese Premier was interested in testing Bishkek's position on pro-independence Uighur political organization, settling the demarcation issue and starting trade and economic relations. In Almaty, the final destination of his tour, Li Peng summarized the important principles that characterized Sino-Central Asia relations: equality and mutual benefits acting according to economic laws; diversifying the types of cooperation; proceeding from the actual situation and making full use of local resources; improving the conditions of communication and transportation; providing modest economic aid to the Central Asian countries as an expression of friendship; developing multilateral economic cooperation, and promoting common prosperity (Li 1994; Renmin Ribao 1994; Qian 1995: 5). These concepts

testified to the importance that Central Asia was assuming for China and the fact that economic cooperation was pivotal to their relationship as confirmed by the large delegation of businessmen that had embarked on Li's trip, accompanying for the first time a high-level government representative abroad (Burles 1999: 15-16). The result was the signature of various agreements and letters of intent for mutual cooperation in a vast number of fields. With Nazarbayev, Li Peng discussed several important themes: from economic cooperation to China's nuclear facility at Lop Nor, including the Kazakh minority in Xinjiang (Clarke 2011: 113). The visit was also an opportunity to talk about border demarcations, an issue that had taken shape soon after Almaty gained independence, and that was crucial to other important matters of common concern, such as the sharing of water resources. A boundary accord was signed on March 21<sup>st</sup>, just ahead of Li's visit, and entered into force in September, resolving all but a small segment of Sino-Kazakh borders and further enhancing mutual cooperation in some crucial sectors.

The disappearance of the Soviet Union created opportunities for China's cooperation with Central Asia; however, it did not mean that Russia had lost its strong influence in the region. For this reason, Premier Li was careful to stress that China was engaging with Central Asia on the basis of equality and non-interference with sovereignty. In addition, Beijing was successful in the strategic dimension of the cooperation: Central Asian leaders unanimously declared that Taiwan was an inalienable part of Chinese territory and that they opposed any attempt to modify this state of things with the creation of "two Chinas" or "one China, one Taiwan."

Since concerns about security were the main motives behind China's initial engagement with the Central Asian republics, during the first phase economic relations remained modest: total trade with Kazakhstan, China's largest economic partner in the region, amounted to US\$363 million in 1992, while in 1995 it totalled US\$391 million (IMF 2017); with the other countries in the region it was even more negligible. The reasons were to be found in the recent past of the five republics: on the one side, the collapse of the Soviet Union had caused massive inflation, the closure of factories and a drop in the purchasing power of the population; on the other side, the fact that these

countries had traditionally contributed to the Soviet Union's economy had limited their productive capacity, and consequently the range of goods they could export. It must be highlighted, however, that unofficial trade or "shuttle trade," mainly performed by merchants in Xinjiang markets (contributing to the increase in this province's foreign trade) that had made their appearance after Central Asian republics had achieved their independence, equalled the official one (Paramonov and Stokov 2007; Peyrouse 2007). At a later stage these border markets appeared in many other cities in Central Asia. As a consequence, China started to be considered by the Republics' leaderships as an important economic actor. Despite poor transport infrastructure between China and Central Asia, in 1992, Beijing decided that Urumqi had to be given the same status as Chinese coastal areas to attract foreign investment: this contributed enormously to the infrastructural and economic development of Xinjiang province, beyond pushing for its integration with the external world.

While China's overall strategy toward Central Asia had followed the pathway of bilateral relations, in 1992 an intergovernmental discussion began with a joint delegation from Kazakhstan, Tajikistan, Kyrgyzstan and Russia meeting with their Chinese counterparts in order to discuss the issue of enhancing military confidence-building measures along shared borders (Dillon 1997: 136). This multilateral diplomatic initiative represented the backbone of the important "Agreement on Confidence-Building in the Military Sphere in the Border Areas," signed on April 26, 1996 by the above-mentioned five countries, usually referred as the "Shanghai Five." This agreement marked an important moment in cooperation between China and Central Asia: the increase in trade was sharp and important steps in the pacific settlement of border disputes had been made. The "Shanghai Five mechanism," as named by Wang Li, was based on a gradualist approach: in the beginning, specific attention had to be given to confidence-building measures in the border areas, which were to be substantiated in the "mutual non-use of force or threat of force" and a "renunciation to obtain unilateral military superiority" (Dillon 1997: 136). This understanding was an important step from several points of view: first of all, it was conducive to transparency in military activity along the border areas; secondly, it brought border security to the forefront of diplomatic relations; and

thirdly, it finally established a multilateral mechanism between China, Russia and the Central Asian republics, covering a wide spectrum of regional and global issues. What is more, the agreement represented an important step forward in regional cooperation, also given the fact that by that time Beijing and Moscow had started to criticize the persistence of United States “hegemonism.” In this regard, the day before the Shanghai meeting Presidents Jiang Zemin and Boris Yeltsin announced their intention to bring the mutual partnership from a “constructive” (as declared during a meeting between the two heads of state in September 1994) to a “strategic” one, making special reference to state sovereignty, ethnic minorities and, above all, to the necessity to reorient the international system in a multipolar way (Wishnick 2001; Wilson 2015: ).

The creation of this multilateral mechanism did not terminate bilateral diplomatic initiatives, which in fact continued with the visit to Central Asia by Jiang Zemin in July 1996. In a speech to the Parliament in Kazakhstan, Jiang reaffirmed the need to broaden cooperation with Central Asia, by invoking “south-south cooperation” between developing countries with similar economic, political and social structures (Syroezhkin 2002: 180), based upon full respect for the principle of non-interference in the other country’s internal affairs, which was essential for the good development of relations, implying the necessity not to offer any support to Uighur aspirations for independence. In this regard, the leaders of Central Asian states were deeply sensitive to China’s demands and, since they had nothing to gain from supporting Uighur activities in their countries, crackdowns on separatists were frequent and vehement.

The summit held in Almaty in June 1998 was crucial since in its communiqué the members stressed the need for the development of transport infrastructure, the construction of oil and gas pipelines, and placed emphasis on regional security, singling out terrorism, separatism and extremism. The need to deepen regional cooperation in military and security terms was the result of a convergence of interests among the organization members. China was extremely preoccupied by the intense activity of trans-national Islamic movements and minority unrest in Xinjiang, while Kazakhstan, Kyrgyzstan and Tajikistan were becoming more concerned in light of the offensive

launched by the Islamic Movement of Uzbekistan (IMU) in the late 1990s and the attempt to assassinate president Karimov. The following summit, in Bishkek in the summer of 1999, definitely marked a shift from issues concerning border demarcation and economic cooperation to a more pronounced regional response to trans-national Islamic movements, drugs and weapons trafficking and border security (Karrar 2010). Both the Bishkek summit and the following in Dushanbe, in 2000, testified to an intense Sino-Russian convergence on strategic interests—such as countering the “three evil forces” of separatism, terrorism and extremism—and on the vision of a “multipolar” international political and economic order, always based on respect for national sovereignty and non-interference in national affairs (Renmin Ribao 2000). Despite efforts for greater cooperation, terrorist incursions from Islamic movements were not completely eradicated. On the contrary, following China’s initiatives to involve its Central Asian neighbours in the crackdown on Uighur separatists, violence and terrorist act took place in Kyrgyzstan.

### **China’s multilateralism in Central Asia: the Shanghai Cooperation Organization**

On June 15, 2001 the Shanghai Five countries, with the addition of Uzbekistan, institutionalized this multilateral mechanism with the creation of the Shanghai Cooperation Organization (SCO). As stated in its founding declaration, the new organization aims to strengthen “mutual trust and good-neighbourly and friendly relations,” and encourage “effective cooperation...in the political, trade-economic, scientific-technical, cultural, educational, energy, transportation, ecological and other areas” (Renmin Ribao 2001). It should also be noted that the SCO “adheres to the principles of openness,” and was not directed against any country. The element of transparency was meant to reassure other countries of the non-antagonistic nature of the organization: this was a crucial factor for the Central Asian republics, for which cooperation with the West, especially in the energy sector, was highly relevant and profitable. Additional documents were released including the one entitled “Shanghai Covenant on the Suppression of Terrorism,

Separatism and Extremism” which stated the provisions for the creation, in 2003, of the Regional Anti-Terrorism Structure (RATS) to coordinate antiterrorist activities. In order to convince everyone that there were no indigenous reasons for unrest in Xinjiang, Chinese scholars declared that instability in the region was mainly fuelled by the conflict in Afghanistan, the civil war in Tajikistan, and the insurgency in Uzbekistan.

The events of September 11, 2001 attenuated the influence of the SCO. Rumsfeld’s “sustained engagement” implied forging new military alliances and for Kyrgyzstan and Uzbekistan, in particular, cooperating with the United States was important in order to curtail internal opposition and as a source of funding (Karrar 2010): the airbases of Karshi-Khanabad, in southern Uzbekistan, and Manas International Airport in Bishkek, were provided to the Americans, officially free of charge, but in reality in exchange for military support and substantial aid packages. Nonetheless, China’s patience was due to the fact that it was not seeking an exclusive sphere of influence in Central Asia and fully understood that, along with Russia, it did not have the ability either to stop the U.S. in the region or to impede the deployment of American troops in Central Asia. On the contrary, most likely China welcomed the U.S. presence in Central Asia as beneficial for bringing instability in Xinjiang under control. Nonetheless, China’s purpose was to enhance its own influence in the region at a measured pace. For this reason, Beijing’s decision to accept the U.S. presence in Central Asia could be intended more as a pragmatic move than a capitulation.

A few months after the terrorist attacks against the U.S. homeland, however, China’s concern about Washington’s unilateralist policies and, above all, the possibility that it would expand the “war on terror” to the Middle East, grew noticeably. In this regard, Beijing’s insistence on the primacy of the United Nations was a demonstration of the Chinese desire that eventual U.S.-led military action would not go unconstrained, as reiterated in its opposition to the “Bush doctrine,” and the consequent war against Iraq, which created a deep fracture between Washington and Beijing. In mid-2002 however, the U.S. Deputy Secretary of State, Armitage, during a visit to China, declared that the East Turkestan Islamic Movement (ETIM) was to be classified by both the

U.S. and the U.N. as a foreign terrorist organization (Renmin Ribao 2002). While some have seen in this move an attempt to gain China's support in Iraq, Washington strongly denied this assertion, clarifying that ETIM had links and financial relations with Al-Qaeda.

In 2002, whereas Uzbekistan had become an intimate ally of Washington in Central Asia, China and Kyrgyzstan announced they would conduct joint military exercises, officially to test anti-terrorism coordination, the first in a long series China conducted with Central Asian countries.

Central Asia's reorientation towards the United States, however, was short-lived. In 2005, Washington's support for the "Tulip Revolution" that toppled president Akayev in Kyrgyzstan and its insistence on an internal investigation into Uzbekistan's suppression of the Andijan uprising pushed Central Asia rulers away from American democracy and human rights promotion and again into the arms of the SCO and its vision of shared interests, economic development, stability and state sovereignty, intertwined with Beijing's emphasis on "non-interference."<sup>1</sup> In the following SCO summit in Astana, in July 2005, disillusionment with the United States' conduct in the region became palpable, and it was reinforced by Uzbekistan's decision to terminate its agreement with Washington concerning the concession of the Karshi-Khanabad air base (Paton Walsh 2005). The rhetoric that had both security cooperation among the members of the SCO and anti-U.S. sentiment at its core did not change at subsequent SCO summits in Shanghai in 2006 and in Bishkek in 2007, highlighting China's and Russia's concern over the threat of the U.S. military presence to their interests in the region.

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<sup>1</sup> In the events that the Uzbek government called an Islamist riot, while many others define as peaceful protests, hundreds of people gathered in the central square of Andijan were attacked by Uzbek security forces (OSCE, 2005). While the nature of both the demonstrations and the subsequent violence is unclear, the deaths of hundreds of demonstrators led to a noticeable cooling of relations between Uzbekistan and many western countries, and e.g. the European Union placed sanctions on Uzbekistan for the next several years (Castle, 2009). To garner support for his regime, Karimov visited both Russia and China.



## **China's energy policy in Central Asia**

Strategically and geographically, Central Asia's proximity provides Beijing with secure access and obvious advantages in transportation efficiency. Politically, China is involved in the SCO and it shares good relations with these states on crucial political issues, which can certainly influence the Central Asian governments' decisions on energy developments. Economically, the prospects are mixed though. Central Asia is blessed with rich natural resources but one significant economic disadvantage is the tendency for these states to delay investment in the transport infrastructure needed for an efficient energy trade network. The quality of rail and road connections remains the real Achilles' heel of the region, as land-based transit is the only route option, therefore limiting the volume of energy trade. From Central Asian governments' point of view, four key issues form their core domestic and foreign policy interests: nationhood, political stability, economic development, and reduced dependence on Russia. Natural resources are perceived to be the key to economic growth in Central Asia; hence, the rapid exploration, development, and export of crude oil, as well as natural gas, are priorities for these countries. Due to their landlocked status, building the infrastructure needed to export petroleum is an expensive proposition; however, the lack of such infrastructure is a major constraint to the full realization of their potential. Before the collapse of the USSR little was done to develop Central Asia's petroleum reserves. After gaining independence, these states sought investment from foreign countries and explored a wide range of possible export routes. In this context, China has gained importance as a partner for Central Asian states.

### *Kazakhstan*

The relationship between Kazakhstan and China in the field of energy started in 1994 when the CNPC acquired 60.3 percent of the shares in the Kazakh company Aktobemunaj Gaz (Niquet 2006). This interest grew deeper in 1997, when the CNPC won a tender to develop and operate two

oil fields in Akhtubinsk and one in Uzen, outbidding American oil companies Texaco and Amoco and the Russian Yuzhmost (Andrews-Speed et al. 2005). This conspicuous investment was of US\$4.3 billion over 20 years and an agreement to build a cross-border oil pipeline from Kazakhstan to China was also reached. Beijing was also given exclusive rights over Kazakhstan's second largest oil field, Aktobe, even though breaking the virtual monopoly Russia had on Central Asian energy exports was particularly complicated. Indeed, Central Asian countries continued, for a decade, to sell most of their oil and gas production to Moscow, which resold it to Europe at a higher price, making significant profits. The most important outcome of this relationship was the oil pipeline that connects Alashankou, on the western borders of the Xinjiang region, to Atyrau, the northern harbour of the Caspian Sea in Kazakhstan. This pipeline, completed through a triple-step construction (the first one from Aktobe to Atyrau completed in 2003; the second from Atasu to Alashankou in 2005; and the third line from Kenkiyak to Kumkol in 2009), has an overall length of more than 2,228 kilometres, and it was jointly built by CNPC and the Kazakh oil company KazMunayGas. Through this pipeline, China is provided with 200,000 bbl/d, but the expansion of the Atasu-Alashankou section nearly doubled capacity in 2013. In Alashankou, the pipeline is connected with the Alashankou-Dushanzhi crude oil pipeline, constructed by the CNPC and operational since December 2005, which has a capacity of 10 million tons of oil per year and mainly supplies the Dushanzhi refinery.

In 2005, CNPC also took over PetroKazakhstan, an international petroleum company registered in Canada with all of its assets in Kazakhstan, for an exorbitant amount of money, US\$4.18 billion, financed by the China Development Bank (China Daily 2005). The deal marked the first case in which a Chinese oil company acquired an overseas listed energy company (Wang 2005). PetroKazakhstan was at the time the largest private oil company in Kazakhstan with 12 percent of the country's oil output and listed on various stock markets all around the world. Moreover, its oil output was basically equal to the entire overseas oil reserves that CNPC had at that time. In April 2009 CNPC purchased 50 percent of MangistauMunaiGaz, as part of a US\$10 billion

loan-for-oil deal with Astana (PetroChina 2009). These moves were inspired less by the commercial attractiveness of the company than by the opportunity to further consolidate CNPC's position in the Kazakh oil sector. Against this backdrop, in February, 2011 Kazakh president, Nazarbayev, visited China and he discussed with Hu Jintao about CNPC participation in the development of Urikhtau gas deposit in Western Kazakhstan: the gas would be exported to the PRC via a new pipeline already under construction. Among other investments for different projects, China promised its support with a US\$5 billion loan to Kazakhstan to construct a petroleum refinement facility on the shore of the Caspian Sea (Pannier 2011).

During Xi Jinping's tour in September 2013, Kazakhstan and China signed several energy deals worth US\$30 billion and CNPC purchased, defeating India's interest, an 8.33 percent stake in Kazakhstan's Kashagan Caspian offshore field: this represents China's first offshore and largest acquisition in the Caspian Sea basin (Reuters 2013). Through the recently constructed Beineu-Bozoy-Shymkent domestic pipeline, Kazakhstan in 2016 also started to export its gas to China (up to 10 bcm/y) using Line-C, the third additional stage of the Central Asian Gas Pipeline (KazTransGas 2019). In addition, the construction of an additional pipeline, Line-D, is currently underway: it will connect Beineu to Shymkent and from here the gas will be directed to Turpan in Xinjiang, providing China with an additional 15 bcm/y (Aliyeva 2018). This broad picture testifies to the fact that China is interested in energy resources all over Kazakhstan, and not only in its western hydrocarbon regions.

### *Turkmenistan*

At the dawn of Central Asia's opening in 1992, CNPC and Mitsubishi proposed exporting Turkmen oil to China and two years later they worked together with Exxon on a feasibility study regarding the possible construction of a pipeline connecting Turkmenistan's gas fields with China. Even though the project was not implemented at that time, it demonstrated the political and strategic significance the region had not only for Beijing but also for the United States. China's

energy cooperation with Turkmenistan had grown significantly by the mid-2000s driven by China's newfound interest in Central Asian gas. For the purpose of increasing the domestic proportion of clean energy through greater use of natural gas, China decided to partner with Turkmenistan, the largest producer of gas in the region and starting around from 2010 the PRC had taken over Russia's position as the main gas buyer of Ashgabat (Shustov 2017). The most important development in this relationship remains the 1,883 kilometres long Central Asian-China gas pipeline connecting Turkmenistan, Uzbekistan and Kazakhstan with Xinjiang, whose construction started in 2007. The pipeline, with an estimated cost of US\$7.31 billion, totally financed by CNPC, allowed China to receive 21.3 bcm/y of gas from Turkmenistan in 2012: about half of Ashgabat's total gas exports and about half of China's total imports (Smith Stegen and Kuszniir 2015: 102). The following year China and Turkmenistan agreed to expand pipeline capacity to 40 bcm/y by 2015, and in 2013 the two decided on a new expansion to 65 bcm/y by 2020. However, the completion of the fourth line of the pipeline has been continuously delayed, to the detriment of Turkmenistan, for which the PRC is the only customer (Eurasianet 2017).

In 2009, China provided a US\$3 billion loan for the initial development of the South Yolotan gas field (Eurasianet 2009), the world's second largest infrastructure of this kind with proven reserves of seven trillion cubic meters, and two years later China added a US\$4.1 billion loan. The PRC has been the sole foreign importer of Turkmen gas since Russia halted gas imports from the country in 2016 and gas supplies to Iran stopped due to a payment dispute in early 2017 (Khatinoglu 2018). Beijing has also become Ashgabat's main trade partner and this was further secured by Xi Jinping's visit in 2013.

### *Uzbekistan*

Uzbekistan is particularly attractive for China due to its oil and gas reserves and its importance as a transit country, but mature political and economic cooperation with China started only in the 2000s. Until that moment, in fact, the volume of bilateral trade cooperation amounted to

less than US\$ 100 million, which was about seven times less than Uzbekistan's total trade with Russia or with OECD countries. In 2002 bilateral trade cooperation drastically accelerated and, within 10 years, in 2014, China had managed to overtake not only the West (or OECD countries) that had attempted to establish strong cooperation with Uzbekistan in the 1990s, but also Russia. In 2005, after the “divorce” from the United States, Uzbekistan decided to “marry” Beijing, with whom it signed the Treaty on Friendly and Cooperative Partnership. The same year, CNPC and Uzbekneftgas signed deals related to 23 oil fields: China decided to invest US\$600 million (Energy-pedia 2005). In July, when Wu Yi, the Chinese Deputy Prime Minister, visited Uzbekistan to further stimulate trade and economic cooperation, the other Chinese company, Sinopec, signed an agreement with Uzbekneftgas to create a joint venture for oil exploration and development of existing fields in the country. Karimov described China as a trustworthy friend and energy became one of the core interests of this renewed alliance that allowed CNPC to open its office in Tashkent in 2006. The company became involved in the development of Uzbekistan's oil and gas fields in the eastern and western areas of the country, including the onshore blocks of the Aral Sea and the Mingbulak oil field in the Fergana valley. In 2008, CNPC, together with Uzbekneftgas, the national energy company, started working on the construction of the Uzbek segment of the Central Asia-China gas pipeline, which became operational in 2009. Apart from oil and gas, China has also invested in other sectors in Uzbekistan including railways and electricity. When Xi Jinping visited Central Asia in 2013, China and Tajikistan, Uzbekistan and Kyrgyzstan decided to sign an agreement for the further development of the Central Asia-China gas pipeline, but as already highlighted, this effort has been delayed. Given Uzbekistan's limited resources for export, if compared to Turkmenistan and Kazakhstan, Chinese interest in the country is better explained by geostrategic and security factors—that is, its degree of industrialization, geographic location, and its being the most populous country in the region—than by pure economic motives (Paramonov 2014).

### *Tajikistan*

Tajikistan was the poorest and most underdeveloped part of the Soviet Union until 1991; since the end of the civil war (1992-1997), the country has experienced steady economic growth, mainly in agriculture, construction and services. Strategically important because of its long border with Xinjiang, China has developed infrastructure in Tajikistan including roads—the Dushambe-Chanak highway, for example—and power lines and hydropower plants. China is also providing the Central Asian country with a huge development loan package. According to Tajikistan’s Minister of Finance, Faiziddin Qahhorzoda, China remains the country’s largest creditor. As of February 2018, Tajikistan owes more than US\$1.2 billion to the Export-Import Bank of China (Asia-Plus 2018). In 2012 it was announced that ten new deals signed by the Tajik president would bring in about US\$1 billion in Chinese investments, loans and aid. In 2013, testifying to the growing importance Tajikistan has for Beijing, Xi Jinping signed a joint announcement with president Rakhmon on the establishment of a strategic partnership aimed at boosting mutual cooperation.

### *Kyrgyzstan*

Kyrgyzstan was one of the most important satellites of the USSR, and it has remained loyal to Moscow, even though China’s growing influence has challenged Russia’s dominant position. In 2016 for example, China’s exports to Kyrgyzstan totalled US\$1.6 billion, nearly double the value of Russia’s. While in the early 1990s the Chinese invested in property and industry construction in Kyrgyzstan, over the last ten years highway repair and energy have become pivotal for investments. Though Kyrgyzstan lacks hydrocarbons, it has major renewable energy potential, particularly hydropower that accounts for over 90 percent of electricity generation (AIIB 2017). One of the most relevant energy projects jointly built with China was the reconstruction of the Bishkek power station, for which Beijing allocated US\$386 million; recently, however, the plant had major problems, and the Chinese company responsible for its modernization was harshly criticized and came under scrutiny in Kyrgyzstan (Putz 2018). Moreover, China’s State Power Investment Corporation and the Kyrgyz government held negotiations on the construction of the Kazarman

chain of hydropower plant on the Naryn River, which, if implemented, is expected to become Beijing's biggest investment in the Kyrgyzstan's energy (Taldybayeva 2017; Du 2018).

### **The New Silk Road: Eurasia in China's Grand Strategy**

Six months after becoming president, in 2013, Xi Jinping embarked on a diplomatic tour that brought him to four of the five republics of Central Asia. The relevance of the trip appeared crystal clear during his visit to Kazakhstan, where, on September 7<sup>th</sup>, the new president gave a speech at Nazarbayev University whose main argument was centred around a “strategic vision” to realize a “New Silk Road” in order to foster regional cooperation (MFA 2013). The term was carefully chosen: what was traditionally known as the Silk Road—a watchword introduced in 1877 by Baron Ferdinand Von Richthofen to describe the “channel” that ran from the Middle Kingdom to Europe through Central Asia—essentially came into being in the 1st century BC, following China's efforts to develop overland trade and cultural exchanges across Eurasia (Fallon 2015). Xi, in any case, was not the first to refer to the Silk Road: the term had already been used by the Chinese leadership in the 1990s and the 2000s, without being linked to any project in particular. In this specific moment, on the contrary, it became a symbolic element that was needed to project a corpus of future infrastructural plans, offered firstly to Central Asian nations and later to Europe, and to complement the official diplomatic approaches implemented by previous Chinese administrations, like the “Shanghai Spirit” by Jiang or the “peaceful rise” by Hu. The New Silk Road envisioned by Xi was a land-based economic belt with the main aim of “opening up the transportation channel from the Pacific to the Baltic Sea.” The colossal project was to be completed, as described by Xi Jinping less than one month later during a visit to Indonesia, by the creation of a “21<sup>st</sup> Century Maritime Silk Road” that would run from China to the Indian Ocean, with ramifications for South Asia and Southern Africa, via Southeast Asia. The maritime project was inspired by historical sea-based trade routes from China's coastal areas through the South China Sea and beyond. As for the land-based leg, the main emphasis of the maritime Silk Road was placed on stronger economic and

infrastructural cooperation, the enhancement of security collaboration, and the strengthening of the “maritime economy, environment, technical and scientific cooperation” (MFA 2013).

These two pivotal speeches, although scarcely covered by the Chinese media, convinced the Chinese Communist Party to endorse the idea of investing in infrastructure connecting Beijing with its periphery. Gradually the initiative has gained greater attention domestically and internationally, becoming in 2016 the most discussed topic in the People’s Daily (Rolland 2017). Despite the initial lack of detail, Xi’s words were of the utmost importance for the development of the so-called Belt and Road Initiative (BRI), the denomination that is now widely used to define it.

While the main focus of the BRI is on building transportation networks between multiple locations, it must be clarified that China’s 21st-century revival of the Silk Road is not limited to the construction of physical infrastructures but, as announced by Xi, on “win-win” cooperation projects. ‘Connectivity’ has become the buzzword, seen in terms of improving transports, communications and energy infrastructures to remove trade and investment barriers as well as to facilitate information and people-to-people exchanges (NDRC 2015). Three land routes have been planned: the Northern one (Beijing-Russia-Germany-Northern Europe); the Middle one (Beijing-Xi’an-Urumqi-Kazakhstan-Hungary-Paris); and the Southern one (Beijing-Kashi-Pakistan-Iran-Turkey-Italy-Spain). These will be complemented by two maritime routes: the first one starting from southern Chinese ports west to the Indian Ocean, Europe, and Africa while the second one from ports in South Fujian to the South Pacific. As a result, the BRI has come to be depicted as part of China’s “grand strategy,” using all elements of national strength to “assert [China’s] influence and reshape at least its own neighbourhood” (Rolland 2017b: 136).

While several Chinese ministries and agencies bear responsibility for implementing the BRI, the lack of a structure of its own poses several risks. On the one hand, as one of China’s leading thinkers, Wang Jisi, first suggested, the BRI might be perceived by some of the countries involved as a unilateral move pursued by a neo-colonialist actor (Wang 2012); on the other, the absence of any kind of formal membership stems from Beijing’s intention to reassure countries about the open



and inclusive nature of the initiative. From the point of view of economic sustainability the New Silk Road should rely principally, from the Chinese side, on the Silk Road Fund, the Asian Infrastructure Investment Bank, and a few private-public holdings.

Central Asia is the core of the land-based component of the New Silk Road and could act as a “testing ground” for the BRI as a whole (Lain 2018: 3). Since the project was announced, most Chinese investment projects or loans, both existing and new, have been placed under the Silk Road Economic Belt umbrella, representing an amplification of China’s existing economic policy in the region. For now, China’s financial presence has taken the form of “connectivity-specific” investments in physical infrastructure, relying on Central Asia as a gateway to bring energy and natural resources from the Middle East and to conduct trade with Europe. Given China’s vital energy security interests in accessing energy supplies, protecting the overseas investments and activities of its NOCs and securing overland oil and natural gas pipeline supplies from across Eurasia, Xi Jinping’s signature policy promises to substantially affect future trade and investment dynamics across Eurasia, with significant geopolitical implications (Downs et al. 2017).

From the political point of view, Beijing’s main reasons for pursuing the BRI initiative are found in the need to respond to the American “pivot to Asia” strategy, launched under the presidency of Barack Obama, and to support the economic development of its peripheral regions Tibet and Xinjiang to better integrate them into the unitary nation-state of China. With regard to the latter in particular, the BRI could help China’s long-standing attempt at a “double-opening”, that is, to simultaneously integrate Xinjiang with Central Asia and China in economic terms, while establishing security and cooperation with Central Asian neighbours (Clarke 2015). It goes without saying that the economic priorities of the Xinjiang province go hand in hand with Beijing’s necessity to control separatist and terroristic groups, which represent a danger for the security and territorial integrity of the state.

## **Conclusion**

The “New Great Game” referring to the struggle in Central Asia spurred on by the collapse of the USSR for control over hydrocarbons resources, transit routes and political influence, has largely benefitted China to the detriment of other actors, especially Western ones. Since then, guaranteeing continuous energy supplies and access to other mineral resources in Central Asia has been a matter of high priority for Beijing. Indeed, China’s rapid economic growth could only be sustained by diversifying its sources of energy imports, and Central Asia immediately appeared in this regard as a perfect interlocutor. In the wake of the emergence of Central Asian states, China was also anxious about its domestic stability and above all about the vulnerabilities that could spill over into the Xinjiang province. The different Central Asian ethno-nationalistic identities, and the resurgence of Islam and militant Islamic extremism, could have contributed to the inflammation of separatist sentiments among China’s ethnic minorities, endangering the unity of the country. This issue has been faced through the creation of the Shanghai Cooperation Organization, a platform for diplomatic contacts with the Central Asian region and a tool to encourage the alignment of those nations’ interests with those of China.

In the last few years, China’s “New Silk Road” plan has become the primary driver of Beijing’s engagement with Central Asia states. In many ways, this initiative is an extension of the pre-existing framework of the SCO: even though security arrangements were not initially mentioned explicitly, Chinese officials are beginning to expand the narrative to include common security interests in the development of BRI. From the Chinese leadership perspective, BRI reflects the region’s geopolitical significance for China’s interests, therefore supporting its ambition to extend its influence in the area while inevitably undermining Russia’s role within the post-Soviet space. As a result, of all BRI recipients, Central Asian states are the most affected by its socio-economic and political implications.

In conclusion, BRI entails potentially enormous benefits in the post-Soviet space as China finances and invests in new energy projects that will help spur local economic growth. At the same

time, the initiative might be perceived as the expression of a mercantilist agenda, allowing China to increasingly shape the future of Central Asia in line with its own domestic and international needs, while Beijing broadens its energy footprint.

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