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CHINA MAKES POLICY SHIFT, AIMING TO WIDEN ACCESS TO CENTRAL ASIAN ENERGY

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China hopes to use the Shanghai Cooperation Organization to help widen its access to Central Asian energy. Russia, meanwhile, is working to keep Beijing's energy import ambitions in check.

Chinese officials recently leaked that they want the Shanghai Cooperation Organization (SCO) to set up an energy working group later this year to study proposals for construction of pipelines among member-states. Since China is conducting parallel negotiations with Russia, the Chinese move to involve the SCO suggests an intensification of Beijing's efforts to secure Central Asian energy. The SCO comprises China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

China has been an aggressive player in the Central Asian energy game over the past year. Taking advantage of Uzbek President Islam Karimov's need for increased political support following the Andijan tragedy, China rushed to provide diplomatic backing while making economic inroads in the form of a \$600 million loan to explore energy deposits in Uzbekistan. [For background see the Eurasia Insight archive]. Last August, China's largest oil producer announced that it had won a tender for PetroKazakhstan. [For background see the Eurasia Insight archive]. Then in December China and Kazakhstan formally opened the 998-kilometer-long Atasu-Alashankou pipeline, even though it is not expected to start delivering up to 200,000 barrels of oil per day until 2007. [For background see the Eurasia Insight archive]. China has also approached Turkmenistan about a possible pipeline venture.

Despite all the deals, China's energy demands are pushing Chinese leaders to constantly search for more opportunities. Beyond Central Asia, Beijing has concluded energy deals with Nigeria and Burma, and is moderating its energy-related rivalry with India. Chinese and Indian companies, for example, filed a joint bid for Syrian pipelines in late 2005 -- a possible portent of an expansion of energy cooperation. Chinese officials have reportedly told their Indian counterparts that China would be interested in exploring a link to the long-discussed Turkmenistan-Afghanistan-Pakistan-India (TAP) pipeline, in the event that the route ever becomes a reality. [For background see the Eurasia Insight archive].

Beijing's actions, much of which represents potentially new departures in Chinese energy policy, can be ascribed to several factors. The main concern, from the Chinese point of view, is Russia's reluctance to give China either the energy it needs, or the terms it wants.

The Russian government views the country's natural resources, as well as its energy conglomerates, as a strategic resource to be used to advance Moscow's geopolitical interests. Russian energy producers have accordingly rebuffed China's efforts to increase supplies. Russian officials have blocked the sale of Slavneft to China, as well as broken up Yukos, an energy giant that favored Russian-Chinese energy engagement. Yukos also was a leading proponent of the construction of the proposed Angara-Daqing pipeline.

Now it appears that Russia prefers a more-costly pipeline to Nakhodka on the Pacific coast. Japan is reportedly ready to subsidize construction of the Nakhodka route, and, in return, would be the primary recipient of the Russian exports. The Nakhodka pipeline's construction would likely force China to purchase energy from Japan, instead of directly from Russia.

Similarly Russian and American energy companies have obstructed, and are still obstructing China's efforts to buy energy holdings in Central Asia, forcing China to depend on external suppliers, rather than gain equity holdings there. Moscow has regularly sought to monopolize the transport of Kazakhstan's enormous oil and gas deposits, oppose Kazakhstan's participation in the Baku-Tbilisi-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. Not surprisingly, Russia's maneuvering has rankled Kazakhstani officials. [See related EurasiaNet story].

Russia has worked diligently to tighten its control over export routes for Central Asian oil and gas. In late 2005, for instance, the Russian energy giant Gazprom reached a deal with KazMunaiGaz, Kazakhstan's main gas and gas pipeline firm, to increase gas transit of Turkmen and Uzbek gas via Kazakhstan. While economic analysts say Russia's strategy is aimed mainly at countering Ukraine's effort to obtain energy independence, Moscow's moves also serve to potentially constrict China's options in Central Asia.

To date, China has pursued a go-it-alone approach in the great energy game, placing emphasis on bilateral deals to secure the oil and gas it needs. However, Russia's obstructionism has helped force Beijing to abandon its preference for unilateral action. China's new willingness to explore joint deals with India, as well as work through the SCO indicate that Chinese leaders now see multilateralism as perhaps the best way to outflank Russia in energy affairs.

At the same time, these moves might also reflect certain skepticism among Chinese leaders about the benefits of a go-it-alone approach. This earlier unilateralism proved to be expensive because it forced Chinese entities to pay for equity ownership in fields at prices higher than the market rate, and often for energy yields that are not as large as would be hoped for.

The new Chinese strategy could end up being cheaper and more reliable over time. Some experts also believe multilateralism could also smooth some of China's rough edges in the energy game. In addition, Russian-Chinese competition over energy could be

beneficial for the United States. While there are solid political and military grounds for cooperation between Beijing and Moscow against Washington, the energy issues dividing Russia and China will not disappear anytime soon. Thus, Beijing and Moscow may never fully realize the potential of a diplomatic alliance aimed at limiting the US role in Central Asia and elsewhere.

NOTES: Stephen Blank is a professor at the US Army War College. The views expressed this article do not in any way represent the views of the US Army, Defense Department or the US Government.