

Revival of the Silk Road in Terms of Energy Trade

İpek Yolunun Enerji Ticareti Açısından Yeniden Canlandırılması

İdris DEMİR
Ahi Evran University

Abstract

Energy Silk Road between China and Central Asia has established a kind of interdependence among the participants. Interdependence among the parties that has initialized with the use of energy trade has transcended to other areas as well. Each party has benefited from this engagement in different ways. Central Asian states have huge hydrocarbon potentials which are not explored completely. Central Asian states seek foreign participation in developing their hydrocarbons. In addition, Central Asian states are looking for foreign participants in order to transport their hydrocarbons to consumption markets. In this context, there are many actors that want to be active and influential in Central Asian energy calculations. China has appeared out to be a prominent figure among other actors. China finds an opportunity to access crude oil by participating in equity shares in different production areas of the region. Moreover, China finds an opportunity to buy crude oil from her border neighbors by the use of pipelines. China buys crude oil mainly from the Middle East. Transportation route between China and the Middle East is under the dominance of the navy of the United States. Therefore, China attaches great importance to Central Asian sources and routes. Central Asian states do not want to rely only to Russia and/ or the United States in formulating various alliances. These newly independent states want to establish economic, political and diplomatic relations with different partners. Energy cooperation between China and Central Asian states has proven to be beneficial for both sides in many aspects.

Key Words: China, Central Asia, energy, pipeline, Russia, United States

Özet

Çin ve Orta Asya ülkeleri arasındaki enerji İpek Yolu, katılımcıları arasında bir çeşit karşılıklı bağımlılığın oluşmasını sağlamıştır. Taraflar arasında enerji ticaretinin yapılması ile başlayan karşılıklı bağımlılık, diğer alanlara da yayılmıştır. Her taraf bu etkileşimden farklı şekillerde istifade etmiştir. Orta Asya ülkeleri, henüz tamamı

keşfedilmemiş olan muazzam bir hidrokarbon potansiyeline sahiptir. Orta Asya ülkeleri, hidrokarbon potansiyellerini geliştirmek için yabancı katılımcılara ihtiyaç duymaktadır. Buna ilaveten, Orta Asya ülkeleri hidrokarbonlarını tüketim pazarlarına ulaştırmak için de yabancı katılımcılara gereksinim duymaktadır. Bu bağlamda, Orta Asya enerji hesaplamaları içerisinde aktif ve etkili olmak isteyen pek çok aktör bulunmaktadır. Diğer aktörler arasında Çin önemli bir figür olarak ortaya çıkmaktadır. Çin, bölgenin çeşitli yerlerindeki üretim alanlarındaki çalışmalarda pay alarak ham petrol elde edebilme imkanına kavuşabilmektedir. Buna ilaveten Çin, sınır komşularından boru hattı vasıtasıyla ham petrol satın alabilme imkanı bulmaktadır. Çin başlıca olarak Orta Doğu'dan petrol satın almaktadır. Çin ve Orta Doğu arasındaki nakliye güzergahı Amerika Birleşik Devletleri donanmasının baskınlığı altındadır. Bu nedenle Çin, Orta Asya kökenli kaynaklara ve rotalara çok büyük önem atfetmektedir. Orta Asya ülkeleri, çeşitli ittifaklar kurarken yalnızca Rusya ve/ veya Amerika Birleşik Devletlerine bağımlı olmak istememektedirler. Bağımsızlıklarını yeni kazanmış bu ülkeler farklı partnerler ile ekonomik, politik ve diplomatic ilişkiler geliştirmek istemektedirler. Çin ve Orta Asya ülkeleri arasındaki enerji işbirliği her taraf için farklı açılardan yararlı olduğunu kanıtlamıştır.

Anahtar Kelimeler: Çin, Orta Asya, enerji, boru hattı, Rusya, Amerika Birleşik Devletleri

I. INTRODUCTION

Ancient Silk Road has connected China and Central Asia for a long period of time. However, this route of trade and culture lost its previous influence with the change in patterns of trade, the initiation of other routes and attitudes of people towards each other and destructive effects of wars throughout this geography. Currently, ancient Silk Road has revived with the energy trade between China and Central Asian states. Revival of the Silk Road has constructed a kind of a two way road between China and Central Asian states. Both sides have different gains, interests, aspirations and calculations in the formation of energy trade which has already transcended to other issues of areas.

Throughout the history a significant number of the trading centers such as Xinjiang, Samarkand and Kokand that are located along the ancient Silk Road have attracted attention of both traders and leaders in acquiring strategic dominance upon these areas. The trade between Central Asia and China has always been crucial and favored by each side. However, previous types of relationships have faced changes since earlier times. The change is that the items such as jade, tea, silk and rhubarb have been replaced with crude oil, natural gas, weapons and infrastructure today.¹ Ancient Silk Road is regarded to be revived in terms of energy trade. In this context, this particular study attempts to illustrate the energy engagement between China and Central Asia. This study argues that energy engagements between China and Central Asian states that create interdependence among partners have already

¹ Niklas Swanström, "China and Central Asia: A New Great Game or Traditional Vassal Relations?", *Journal of Contemporary China*, Vol. 14, No. 45, 2005, p. 576-577.

spread to other issue areas gradually. Spill over effect would cover other economic, diplomatic and political areas that would contribute to regional peace and security. In fact, recent events have proven the fact that energy interdependence has spread to political aspects. Political unrest of Uigur Turks in Xinjiang province of China did not find any kind of support from Central Asian states. Central Asian states have tended to regard the issue as a domestic issue of China and refrained to interfere in the issue in one way or another. Both sides have proven to be careful not to deteriorate the course of relations that has been institutionalized through the interdependence structured by the energy trade.

In order to clarify the topic under discussion, the methodology used in this paper is follows: section two deals with the positioning of Central Asian states between Russia and the West. Political atmosphere and economic conditions of these newly independent states after the demise of the Soviet Union have been examined clearly. It has been indicated that Central Asian states are strained between Russia and the West in formulating policies that would shape the future of their states. However, policy makers of Central Asian states were unwilling to accept the idea to be confined to making a choice between two masters. These newly independent states have suffered from the control and dominance of a master for a long period of time. Central Asian states wanted to implement policies that are multidimensional with many different partners. In this context, China has appeared to be a viable partner for the countries under consideration. Choosing the Chinese option is the topic of section three. If one side of the coin represents the Central Asian states, other side of the coin represents China within the framework of energy Silk Road. Chinese energy security strategy is put under eye in section four. Transition of China from self reliance on hydrocarbons to import dependency has been scrutinized. Strategies that have been implemented by China in order to overcome the heavy burden of import dependency have been examined in various dimensions. In this context, section five deals with the unique place of Central Asia in Chinese energy security calculations. The importance and prominence of partners of energy Silk Road, Central Asia and China, for each other in economic, political and diplomatic aspects have been examined in the last section.

II. CENTRAL ASIAN STATES BETWEEN RUSSIA AND THE WEST

Central Asia has regarded to be the key to the control of the world island by Sir Halfrod Mackinder. The control of Central Asia or a strong hand in the influence over the region has been the driving motives of global powers. Great powers have tried to participate in this region in military, strategic and political terms. Central Asia has become the source of the great confrontation of global powers again. Current struggle of influence over the region stems from the huge hydrocarbon potential that the region holds. Both global and regional powers try to be active and influential in acquiring larger share in Central Asian hydrocarbon business.

It is with no doubt that world politics has entered into a new phase after the demise of the Soviet Union. Energy politics is no exception to that. It is not only regional energy calculations that are being affected from the change in the status quo of the region, global energy politics have been affected, as well. Hydrocarbon resources of Central Asian and Caspian states added a new source of supply for the countries that are looking for alternative energy loading points to the already existing ones in the Middle East, Latin America, the North Sea, Russia and Africa.

Central Asian states in general occupy rich hydrocarbon potentials. This is the main reason why the region has attracted the attention of the major players of the international energy industry. Kazakhstan has the region's largest recoverable crude oil resources. Kazakhstan's crude oil production accounts for almost two thirds of the region. Kazakhstan has pursued a policy of cooperation with international investors in developing her hydrocarbon reserves. Kazakhstan has welcomed international actors to invest in her hydrocarbon industry. Major international companies have participated with different shares in various oil producing facilities. Since independence, state oil company of Kazakhstan has concluded promising deals with international companies in lucrative terms to develop crude oil and natural gas deposits of the country.

Kazakhstan pursues a strategy of aligning with different partners in different fields. Kazakhstan formed a joint venture with Chevron to develop the Tengiz field. Kazakhstan cooperated with British Gas and ENI to develop the Karachaganak field which is regarded as one of the largest gas condensed fields of the world. Kazakhstan works with a large international consortium to develop the Kashagan reserves which is the largest oil field in the world that is not located in the Middle East. The international consortium is composed of Royal/Dutch Shell, ENI, ExxonMobil and ConocoPhillips.²

Azerbaijan shows a unique approach in developing hydrocarbon riches of the country. A significant amount of the country's reserves is developed by SOCAR which is the national oil company of the state itself. However, Azerbaijan also cooperated with multinational oil companies in acquiring foreign currency and technical aid in developing the existing explorations and the forthcoming activities. By this way Azerbaijan tries to overcome the technological and financial constraints that impede the full utilization of the resources of the country. Azerbaijan International Operating Company is the most prominent consortium that has efforts of expanding the oil production of the country. The consortium covers BP, Unocal, SOCAR, Inpex, Statoil, ExxonMobil, TPAO, Devon Energy, Itochu and Delta/Hess.³

² Gawdat Bahgat, "Prospects for Cooperation in the Caspian Sea", *Communist and Post-Communist Studies*, No. 40, 2007, p. 159.

³ Gawdat Bahgat, "Prospects for Cooperation in the Caspian Sea", p. 160.

Even though Turkmenistan possesses an amount of crude oil reserves, its prominence in the energy calculations of the region arises from huge natural gas reserves. Significant natural gas reserves of the country are the paramount driving forces of the economic prosperity of the country. Dauletabad and Shatlyk are among the biggest natural gas reserves of the world.

Although it is clear that the hydrocarbon potential of the Central Asian States are far from challenging the dominance of the Middle East, post Soviet republics provide an invaluable additional source for global energy output. In spite of the fact that different sources provide different numbers for proven, probable and possible reserves of hydrocarbon potentials of Central Asian states, there is a wide consensus that the potentials of these states strengthens the security of energy supply not only in the regional but also in the global scale.

In this respect it should be indicated that Azerbaijan is attributed to have crude oil reserves of 6.9 billion barrels and natural gas reserves of 30.0 trillion cubic feet. Kazakhstan has an oil reserve of 8.0 billion barrels and 65.0 trillion cubic feet of natural gas. Turkmenistan has an oil reserve of 0.5 billion barrels and 101.0 trillion cubic feet of natural gas.⁴ Another prestigious institution that publishes energy statistics indicates that Azerbaijan has 1.2 billion barrels of crude oil reserves and 4.4 trillion cubic feet of natural gas reserves. Kazakhstan has 5.4 billion barrels of crude oil and 65.0 trillion cubic feet of natural gas reserves. Turkmenistan has 0.5 billion barrels of crude oil and 101.0 trillion cubic feet of natural gas reserves.⁵

In addition to the huge hydrocarbon potential of Central Asia, there are other prominent issues that have contributed heavily to the rising importance of the region in global energy security calculations. There is a decline in the oil production of some of the great fields in the North Sea and Alaska. Prominent actors of international energy business face difficulties in entering to the Middle Eastern upstream activities for various reasons. Major energy producers such as Saudi Arabia and Kuwait strongly oppose to foreign investments. Other major oil producers such as Iran and Libya are under economic sanctions that make it difficult to make investments in uncertain environments.⁶ Another reason that convinces the international investors to participate in Central Asian projects arises from these newly independent states themselves. After their independence, Central Asian states had weak economies and needed huge amounts of investments for their well being and economic prosperity. It was the huge energy potentials that attracted the foreign investments.

⁴ British Petroleum, *BP Statistical Review of World Energy*, London, June 2001, p. 4, 20.

⁵ *Oil and Gas Journal*, "Worldwide Look at Reserves and Production", Vol. 98, No. 51, p. 122.

⁶ Gawdat Bahgat, "Pipeline Diplomacy: The Geopolitics of the Caspian Sea Region", *International Studies Perspectives*, No. 3, 2002, p. 311.

It is not only the access to the hydrocarbon potentials that arises the attention of international actors to the region, but also the pipeline options that are under discussion and consideration. The fact that Central Asian republics are landlocked makes it necessary to carry the hydrocarbon potentials to the consuming points in various ways. Neighboring countries try to engage in different pipeline projects. Transit countries would earn lucrative amounts of transit fees⁷ and acquire some amounts of crude oil with lower rates for their domestic consumption. However, it is not only economics that determines the success of the operation of a pipeline. There are various conditions that range from the technical factors to different political factors depending on the market conditions, geological findings of the reserve itself and geographical restrictions that involve historical relations of the neighboring countries at the same time.⁸

Transportation routes are regarded to be a source of geopolitical rivalry, as well. It is because of this fact that there are five different routes that are promoted and are fore grounded to carry the energy sources from the producing points to consuming markets. Different routes that are proposed for the unique situation of Central Asia include Northern, Southern, Western, Eastern and Southeastern routes.⁹ Russia, the Western countries and China appear out to be influential partners for Central Asian States in transporting their hydrocarbon resources to the consuming markets. Therefore, there is a strong struggle over the power of influence in the region among these actors.

Under the current structure a significant amount of energy needs of both Turkey and Europe comes from Russian sources. Russian dependency of both parts is in threatening limits that security of supply considerations can handle. Neither the European Union nor Turkey is willing to completely rely on the energy sources coming from Russia.¹⁰ Western countries try to propose pipeline routes that favor and promote their interests in political, strategic and economic terms. However, it should also be indicated that it is not only economics that drives global attention to the heartland of the world. Political discourse has also been influential in directing the attention of the great powers to the region.

There are different actors with different motivations that have participated in Central Asian energy game because of various reasons. Each player has participated in the game in order to acquire a larger share of the potential of the region for her

⁷ Brenda Shaffer, "From Pipedream to Pipeline: A Caspian Success Story", *Current History*, October 2005, p. 344.

⁸ Thomas R. Stauffer, "Caspian Fantasy: The Economics of Political Pipelines", *The Brown Journal of World Affairs*, Vol. 7, No. 2, 2000, p. 64.

⁹ Shah Alam, "Pipeline Politics in the Caspian Sea Basin", *Strategic Analysis*, Vol. 26, No. 1, 2002, p. 7.

¹⁰ Mert Bilgin, "New Prospects in the Political Economy of Inner-Caspian Hydrocarbons and Western Energy Corridor Through Turkey", *Energy Policy*, No. 35, 2007, p. 6392.

own interest. It is because of this fact that multiple actors have sometimes collided and sometimes have cooperated with each other in different combinations in order to maximize their benefits in various forms. Throughout the efforts of decreasing the unilateral dependency on Russia, Europe engages in Central Asian affairs in political terms, as well. European Union tries to form a kind of alignment with Central Asian countries. In this respect, European Union supports the independence and territorial integrity of the newly established states in the region. Consolidation of democratic institutions and human rights as a basis for security and peace is another concern for EU. Decreasing the number of conflicts by means of political and economic reforms is another point that EU addresses her priority. Active participation in decision making process of investment of energy, mining and future pipeline routes that opens a way to strengthen European position in the region through more intensified political dialogues.¹¹

In this context, United States pursues an attitude of integrating energy and regional security policies into an indigenous democratization process.¹² United States supports the process of nation building process in central Asia and Caucasus region. The exploration and production of the hydrocarbon potentials of the region contributes to the energy security of supply calculation in the global scale which has a vital priority in the energy policies of the United States. Another issue of concern for the United States is opposing Russian monopoly over gas and oil pipelines. It is evident that there is still a heavy Russian domination over the pipeline routes of the region remaining from the Soviet Union structuring. United States pursues active policies in the region in order to support her allies such as Turkey in one hand and confine and restrict the active policies of rival countries such as Iran.

In addition to these influential actors of politics in global scale, China is turning to Central Asian states for the sake of her domestic energy needs, as well.¹³ Lacking from adequate domestic sources to satisfy the demand, China pursues an active energy security strategy. Energy security remains a crucial element of China's economic and modernization strategy.¹⁴ Active engagement of China in Central Asian affairs does not result only from energy and economic considerations; there are political calculations, as well. China is aware that Uighurs in Xinjiang province can receive economic and military aid from Central Asian states.¹⁵ Therefore, China tries to prevent any kind of relations among the Central Asian states and Xinjiang

¹¹ Gourban Alekperov, "Energy Resources of the Caspian Region and the Significance of Turkey for Europe's Energy Security", *The Quarterly Journal*, Vol. 3, No.3, 2004, p.106.

¹² Pınar İpek, "Challenges for Democratization in Central Asia: What Can the United States Do?", *Middle East Policy*, Vol. 14, No. 1, 2007, p. 103.

¹³ J. Peter Pham, "Beijing's Great Game: Understanding Chinese Strategy in Central Eurasia", *American Foreign Policy Interests*, No. 28, 2006, p. 57.

¹⁴ Kevin Sheives, "China Turns West: Beijing's Contemporary Strategy Towards Central Asia", *Pacific Affairs*, Vol. 9, No. 2, 2006, p. 218.

¹⁵ Russel Ong, "China's Security Interests in Central Asia", *Central Asian Survey*, Vol. 24, No. 4, 2005, p. 429.

region that can give harm to her authority in the region. By taking place in Central Asian politics, China is regarded to be successful in obstructing such kind of activities.

One should remember that the region under consideration has been under the control of Russia for a long period of time in economic, political and cultural terms. Russia regards the region as her backyard or near abroad. Currently Russia dominates the existing transport routes of the hydrocarbon potentials of the region in a great amount. This results mainly from the Soviet legacy of the region. Russia acquires a great amount of economic earnings from the existing structures. It is evident that oil and gas industry occupy a paramount share of Russian revenues. The importance of energy earnings does not come from only Russian domestic sources but also from these transit earnings crossing through her territory. Apart from economic considerations Russia claims to be influential in foreign policy engagements of Central Asian countries. Russia still wants to keep the newly independent countries in her orbit. Therefore, political and economic considerations of Russia collide with Western and Chinese policies.¹⁶ In this respect, Central Asia has been a kind of a battle ground among major actors.

III. CHOOSING THE CHINESE OPTION

It is an evident fact that Central Asian states still have to take Russian interests into consideration when making decisions on energy calculations. Russia is present in Central Asian energy affairs not only as a transit country but also a shareholder that has considerable amounts of equity shares in hydrocarbon producing areas.

Russian influence is present both in politics and economic activities of Central Asian countries in addition to the calculations of energy politics in various aspects. Although the old structures are in a process of change, Russian presence still dictates that Commonwealth of Independent States should formulate policies that are not too far from Russian policies.

After their independence, Commonwealth of Independent States countries tried to formulate new policies of their own in both global and regional affairs. Throughout this period of constructing national policies, governance of some of the republics has changed. In Ukraine and Georgia for example new governments are hold after their elections. New governance of these countries, however, started to pursue policies that are compatible with the Western world while dissatisfying Russian concerns. It is evident that Russia interfered into politics of these countries in one way or another when she felt that her interests are too unsatisfied. Therefore, Central Asian republics try to pursue policies that are not too incompatible with

¹⁶ Gawdat Bahgat, "Oil and Terrorism: Central Asia and Caucasus", *Journal of Social, Political and Economic Studies*, Vol. 30, No. 3, 2005, p. 265.

Russian considerations. Central Asian republics, at the same time, do not wish to be dominated by Russia and do their best to keep balance between China, Russia and the West.¹⁷ It is not going to be unwise to argue that Central Asian republics try to be very careful in concluding terms and contracts with different partners.

Cooperating with China appears out to be a viable alternative for countries that try to get over the Russian dominance without pushing the policies too hard in threatening amounts. In economic terms Central Asian states try to have multiple pipeline options in transporting their resources. By getting the Chinese involved, Kazakhstan, for example, has created a counter-balance to Russia, ensuring that it does not become entirely dependent on Russia in energy export needs.¹⁸ It should be indicated that this case is similar to other Central Asian states at the same time. These states under consideration want to enjoy the presence of alternative routes that do not include only the Russian domination. Diversifying routes would not only provide economic benefits but also strategic alternatives at the same time.

It should be remembered that Turkmenistan, under the Niyazov governance, has maintained a kind of a policy of ‘positive neutrality’, which is regarded as a policy of non-alignment with great powers in the region. In consequence, Russia was kept at arm’s length diplomatically, placing China in a beneficial position as an alternative great power trade partner.¹⁹

IV. CHINESE ENERGY SECURITY

Throughout the world history China has always been influential in the global scale in one way or another. Chinese civilization has influenced other civilizations in cultural terms. Chinese military has been active in the formation of security calculations of neighboring states. Chinese ideology of interpreting world politics has found reflections in the global scale throughout the Cold War. It is for sure that China is regarded to be a great international power rather than being a regional actor for a considerable amount of time. There is Chinese presence and influence in global politics in various aspects. In today’s world, China is regarded to be one of the major actors that shape the global economy. China, as an economic giant, needs secure energy sources for the uninterrupted continuation of her economic and social

¹⁷ Artyom Matusov, “Energy Cooperation in the SCO: Club or Gathering?”, *China and Eurasia Forum Quarterly*, Vol. 5, No. 3, 2007, p. 98.

¹⁸ Mehmet Ögütçü and Xin Ma, “Geopolitics of Energy: China and Central Asia”, *Insight Turkey*, Vol. 9, No. 4, 2007, p. 54.

¹⁹ Marc Lanteigne, “China’s Energy Security and Eurasian Diplomacy: The Case of Turkmenistan”, *Politics*, Vol. 27, No. 3, 2007, p. 148.

life. Security of energy supply strategy is the vital issue that Chinese policy makers have to take care of.

By definition, energy security is regarded to be a situation in which consumers and their governments have reasons to believe that there are enough reserves and production and distribution facilities available to meet their energy needs at affordable prices. There is insecurity when the welfare of the citizens or the ability of governments to follow the best interests of the citizens is threatened, either as a result of physical failure resulting from accidents, sabotage activities, inadequacy of the existing structures or because of a change in energy prices.²⁰ In other words, energy security can be described as the availability of energy at all times in various forms, in sufficient quantities and at affordable prices.²¹

China has long enjoyed the state of having adequate domestic reserves to satisfy energy needs of the country. However, it was in 1993 that domestic reserves of the country faced deficits to keep up with the demand. There are various reasons for the rise in consumption which are peculiar to not only China but to every single energy consuming country. Rise in population results in the rise in the need of energy consumption together. In addition the rise in population and rise in living standards of the citizens result in a state of higher energy consumption. More cars would demand for more oil products. Likewise, the usage of more household appliances would require more electricity. Rise in the industrialization levels of a country is another major factor that is responsible for the rise in the need of energy. It is evident that energy consumption is necessary for every single economic activity. More economic output requires more demand for energy.

It is for sure that there is a steady rise both in population and in the living standards of the citizens of China. China has become one of the driving forces of the world economy for a long period of time. It is not only Chinese firms that operate and make production in China but foreign firms also make huge investments within Chinese territory for their own economic output because of lower costs of production. These, in turn, resulted in a steady rise in energy consumption. Rise in energy consumption in one hand and declining reserves in the other, China faced the serious question of the security of energy supply.

As a country that attaches a great importance to domestic supplies of energy, coal consumption occupies an important place within the primary energy mix of China. The real problem for China in dealing with the problem of the security of energy supply comes from providing adequate amounts of crude oil and natural gas. It is not only peculiar to China to attach the vital importance to supplying crude oil

²⁰ Robert Belgrave, Charles Ebinger and Hideaki Okino, *Energy Security to 2000* (Great Britain: Gower Publishing Company, 1987), p. 2.

²¹ Philip Andrews-Speed, Xuanli Liao and Ronald Dannreuther, *The Strategic Implications of China's Energy Needs* (United States: Oxford University Press, 2002), p. 13.

among other forms of energy. Each energy consuming state in the global scale attaches utmost importance to the acquisition of crude oil that is vitally important for their economy, industry and the uninterrupted continuation of their social life. Crude oil has high energy content. Since it is liquid, it is easy to transport the crude oil from even long distances. Furthermore, current appliance stock of energy burning utilities is under the heavy domination of oil using systems. These issues are responsible from the fact that crude oil enjoys the dominant position within the primary energy mix of every country.

In order to supply necessary amounts of crude oil, there are some strategies that are followed by each state. Basic elements of the energy policy of a country should include development of indigenous oil and gas resources. Diversification of energy sources is another important pillar in the consumption patterns of a country. Diversification of imported energy types, suppliers and transport options is another vital element. Apart from these strategies that should be pursued in accordance with foreign partners, consumer governments should place a great emphasis on the studies of energy conservation and effective and efficient use of energy consuming utilities. In this context, in dealing with the problem of the security of supply, Chinese strategies should attach a great importance to the maximum development of domestic sources. Formation of strategic reserves is another necessity in order not to fall into chaos in times of energy scarcity. In addition to these domestic studies, Chinese policy makers should look for foreign technology and investment in order to get maximum profit from existing domestic resources. Establishing reliable and secure oil trading channels is another strategy that Chinese policy makers have to take care of. China, herself, should make strategic investments in upstream production facilities of energy producing countries abroad.²²

There are various reasons for the rise of energy consumption of China. Rapid economic growth of China is the primary reason of the steady rise in energy demand. In 1971 the share of China in the primary energy demand of the world scale was 5% when China inhabited 23% of the whole population of the world. In 1995, the share of China in world population decreased to 21% while its energy demand more than doubled and reached to 11%.²³ The year 1993 is a turning point for China in the sense that it is the year that crude oil consumption of China surpassed the domestic production and the country started to become import dependant. Since 1993, crude oil import figures of China show an increasing trend.

In 2001 Chinese production of crude oil was calculated to be 3.2 million barrels per day (mb/d) and China imported not less than 1.4 mb/d. Between the years 2003 and 2004 China experienced an increase in oil consumption. Oil consumption rose to 6.53 mb/d from the level of 5.56 mb/d. During the same time limit Chinese imports

²² *China's Worldwide Quest for Energy Security* (Paris: International Energy Agency), p. 9.

²³ Charles E Ziegler, "The Energy Factor in China's Foreign Policy", *Journal of Chinese Political Science*, Vol. 11, No. 1, 2006, p. 4.

increased from 2.02 mb/d to 2.91 mb/d. this means that in just one year the percentage of imported oil increased dramatically from 36% to 45%.²⁴

The level of imports is expected to be higher and even more than double in the coming 15 years. Domestic energy demand would rise particularly for the economically vibrant but energy poor southern and eastern coastal provinces and the domestic production of energy would fail to keep up the pace. In parallel with the economic growth, crude oil consumption of China is projected to increase by between 750000b/d and 3 mb/d, reaching to the total of 5.4 mb/d to 7.6 mb/d by the year 2010. If the strong increasing trend in economic activities continues, by 2020, the oil demand of China could be as high as 7-12 mb/d. When this projection is taken into consideration with the relatively stagnant domestic production together, import levels for China would grow between 2-4 mb/d over the next ten years.²⁵

China is currently the world's second largest consumer of crude oil²⁶ right after the United States, surpassing Japan. In order to meet the demand, China has forged active energy diplomacy abroad. Throughout the efforts of finding trade partners, China has bought large sums of crude oil from Saudi Arabia. Iran, Oman, Angola, Yemen, Sudan, Congo, Russia and Kazakhstan are worthy of attention among other trade partners of China in providing crude oil.

It is evident that China faces serious question of oil supply insecurity. In order to overcome the heavy burden of the threat of the lack of secure crude oil supplies, China attempted to internationalize her oil industry. Since 1996, China supplies a considerable amount of oil needs through international exploration and acquisition activities. China is seeking to address the perceived energy vulnerability through the strategy of having a direct access to the hydrocarbon resources around the world.²⁷ In this respect China has been very active in participating Production Sharing Agreements and Concession projects in the Middle East, Central Asia and West Africa. Thus far, Chinese oil companies, especially the China National Petroleum Company, have been involved in the acquisitions of equity shares and upstream exploration projects in more than 20 countries, mostly in the Middle East and Africa. Furthermore, Chinese firms are active in making business with other firms, too. It is worthy of indication that China National Offshore Oil Corporation

²⁴ Charles E Ziegler, "The Energy Factor in China's Foreign Policy", p. 6.

²⁵ Amy Myers Jaffe and Steven W. Lewis, "Beijing's Oil Diplomacy", *Survival*, Vol. 44, No. 1, 2002, p. 118.

²⁶ Hongyi Harry Lai, "China's Oil Diplomacy: Is it a Global Security Threat?", *Third World Quarterly*, Vol. 28, No. 3, 2007, p.521.

²⁷ Flynt Leverett and Pierre Noel, "The New Axis of Oil", *The National Interest*, Summer 2006, p. 62.

attempted to buy Unocal in the United States.²⁸ Although this attempt was fruitless because of the opposition of United States Congress in August 2005, it is important enough to indicate the level of operation and the strength of the Chinese firms in world wide scale.

The Middle East remains the principal supplier of China's imported oil needs and is likely continue to be so in the foreseeable future. It is going to be wise to argue that China and the Middle East form a 'natural market of oil' due to latter's rich oil reserves and increasing energy demand of the former, especially in the short run. Moreover, China and the Gulf do not share boundaries which mean that the two sides do not face the obstacles of a bitter history and distrust with each other.²⁹

The Gulf region is also likely to meet China's growing needs for natural gas. Iran, Qatar, Saudi Arabia and United Arab Emirates are the second, third, fourth and fifth natural gas holders of the world after Russia. Unlike Russia, massive proven natural gas reserves of the Middle East are largely under-developed. The Middle East has the lowest exploration and development costs for natural gas than the gas deposits of any other region in the world. Moreover, the governments in the Gulf region have been forthcoming in opening their doors to foreign investment in natural gas operations. Because of these promising business environment both China and the Gulf states, particularly Saudi Arabia and Iran, have further consolidated their partnership in oil and gas industries.³⁰

It is because of these fruitful engagements that the Middle East acquires the primary seat within Chinese energy planning calculations. However, transportation of energy sources from Middle East and from other sources that China does not share borders, such as Africa and Latin America, inevitably requires sea transport. It is a well known fact that maritime lanes are under the dominance of the United States navy. There is little, almost none, influence of China even her own near maritime neighborhood. China worries about the safety of her transport corridors, chiefly the Strait of Malacca, through which almost half a million ships pass each year.³¹ Dominance of the United States over the sea lanes fuels the Chinese concerns of having access and concludes long term deals from neighboring regions where different means of land transport can be possible.

²⁸ Phar Kim Beng and Vic Y. W. Li, "China's Energy Dependence on the Middle East: Boon or Bane for Asian Security", *China and Eurasia Forum Quarterly*, Vol. 3, No. 3, 2005, p. 23.

²⁹ Mehmet Ögütçü and Xin Ma, "Growing Links in Energy and Geopolitics: China and the Middle East", *Insight Turkey*, Vol. 9, No. 3, 2007, p. 110.

³⁰ Gawdat Bahgat, "Energy Partnership: China and the Gulf States", *OPEC Review*, June 2005, p. 125-126.

³¹ Xu Yi-chong, "China's Energy Security", *Australian Journal of International Affairs*, Vol. 60, No. 2, 2006, p. 280.

It is a well known fact that the transportation of energy forms via sea lanes cannot be regarded as a safe form of carrying the hydrocarbons from one point to the other. Apart from possible problems of climate conditions, the sea lanes under consideration can suffer from regional or international wars. Tensions along the route of oil tankers would result in disruptions of the transportation of crude oil from the production points to the consumption centers. One should recall that global oil business has suffered from the insecurity of the Persian Gulf during the long lasting Iran- Iraq War for a considerable period of time. Likewise, China attaches great importance to the safety of the transportation routes of crude oil carrying tankers to China. It was in the year 1993 that the transportation of foreign oil to China's shores was threatened. Although there have been no reported incidents of embargoes that are being imposed by producing countries or the third parties, Chinese container *Yinhe* (Galaxy) became the subject of a forced inspection by the United States in the Persian Gulf. *Yinhe* was suspected of carrying precursors and chemical production equipment on route to Iran.³² Although the incident concluded without there being any harm to the Chinese import from Iran, it gave a sign to the policy makers that the containers can be stopped and shipments can be interrupted. In this respect the importance of Central Asia appears to be significant for China that suffers from the phase of import dependence after a long period of self reliance in energy supply.

V. IMPORTANCE AND PROMINENCE OF CENTRAL ASIA

It is an actual fact that Central Asia has always been a region of utmost importance for China throughout the history. Current Chinese interest toward Central Asia has an aim to reduce her reliance upon Middle Eastern oil supplies that have to travel via the Indian Ocean, the Strait of Malacca and the South China Sea. Since China endeavors to strengthen her presence in Central Asia, she pursues active oil diplomacy. In strengthening her position throughout the region where both hydrocarbon resources and overland pipeline routes are not subject to the domination of the United States, China has participated in various economic activities that provide ground for interdependence that open another reason for strengthening various relations in different aspects.

Beijing, which is a late arrival in the international energy game, has aimed to be very active in Central Asian region ever since the large hydrocarbon deposits of the region are open to foreign cooperation and investment. The reasons of the active engagement of in Central Asian affairs harmonize a number of foreign policy objectives. The principal aim of diversifying and ensuring access to Central Asian energy resources is embedded in cutting the links between Muslim Uyghurs in Xinjiang and their ethnic and religious kin across Central Asia. Furthermore, China

³² Zha Daojing, "China's Energy Security and Its International Relations", *China and Eurasia Forum Quarterly*, Vol. 3, No. 3, 2005, p. 40.

tries to encourage economic and trade relations between her Western provinces and Central Asian states. It is with no doubt that, these strategies are considered to be among the driving motives of the preparations of becoming an influential global actor.³³ In this respect, it is worthy of attention to indicate that China is now deeply involved in expanding road and rail connections in her near abroad such as Central Asia, Iran, Pakistan, Nepal and Bhutan. Crude oil pipeline from Kazakhstan and huge deep-sea port on the Pakistani coast at Gwadar all reflect the determination of China to develop her Western provinces and to connect them to Eurasia.³⁴ Being an influential global power requires a solid ground in primarily domestic and secondarily in regional affairs.

It is an actual fact that China is willing and is able to be an influential actor in Central Asian affairs. There are various advantages of China in strengthening her influence over the region. It is mainly the geography that gives a strong hand to China in implementing various policies that are in accordance with Chinese calculations and aspirations. China has always been present in the region. Furthermore, China is going to continue to be the next door neighbor of the states in the Central Asian region. Any kind of policy should be based on this fact. In this respect, it should be indicated that there are some efforts that are institutionalized which provides platforms for China be active and influential in the region. This provides opportunity and ground for economic, political and diplomatic engagements between China and Central Asian states.

Right after the demise of the Soviet Union in 1991, China rapidly established diplomatic relations and signed a series of agreements on bilateral economic cooperation with Central Asian states. Moreover, in 1997, CNPC have been granted the right to develop two oil fields in Kazakhstan. China also undertook to construct a pipeline to carry oil to China. Kazakhstan has large hydrocarbon reserves and there are new discoveries that are being made each year. The main problem for Kazakhstan is the transportation of these reserves to the consuming markets that are located far from the production areas. It is because of this fact that Kazakhstan made energy as the key component of her economic relations with China and included the eastward flowing pipeline from Kazakhstan to China. Making investments in overseas sources was among the key facets of Chinese energy strategy and Kazakhstan was a next door neighbor where oil can be imported directly by the pipeline.³⁵ Once the pipelines are constructed, they are fixed. They cannot be removed or redirected. Moreover, pipelines are the signs of long term

³³ Emilian Kavalski, "Whom to Follow? Central Asia Between the EU and China", *China Report*, Vol. 43, No. 1, 2007, p. 48.

³⁴ Geoffrey Kemp, "The East Moves West", *The National Interest*, Summer 2006, p. 74.

³⁵ Philip Andrews-Speed, Xuanli Liao and Ronald Dannreuther, "Searching for Energy Security: The Political Ramifications of China's International Energy Policy", *China Environment Series*, Issue 5, p. 22-23.

strategic engagements that guarantee the continuous flow of energy throughout the life expectancy of the project.

Likewise, once China-Kazakhstan pipeline starts to have full operation current energy trade between two countries would expand directly. The volume of crude oil imports of China from Kazakhstan has shown an increasing trend from 1999 onwards. In 1999, the volume of imports was calculated to be 49.08 (in 10,000 tons). In 2000, the figure of imports rose to 72.42 tons. It was 64.96 in the year 2001 and 100.36 in the year 2002. There is even a sharper increase in the following years. In the year 2003, the volume of Kazakh imports was 119.82 tons and in the year 2004 the figure for Kazakh imports was 128.56 tons.³⁶ The rise would increase tremendously with the full operation of the 3000 km long Atasu-Alashankou pipeline.

Atasu-Alashankou pipeline project was initiated in 1997. In December 2005, second cross-border phase of the pipeline running 962 kilometers was completed. The significance that has been attached to the pipeline is so great that it has been argued that this pipeline would undercut the geopolitical significance of Baku-Tbilisi-Ceyhan oil pipeline.³⁷ Although there were delays through the construction of the Atasu-Alashankou pipeline because of the hard burden of huge construction costs, each side attached a high importance upon the completion of the project. In this context, starting from May 2006, Kazakh oil was sent to China through the Atasu-Alashankou pipeline that is due for completion in several stages by 2011. It is important to note that in 2006, 2.2 million tons of crude oil was exported via Atasu-Alashankou pipeline and in the year 2007, 2.714 million tons of crude oil was exported.³⁸ The fact that Atasu-Alashankou pipeline is the only trans-national pipeline of China is also worthy of attention in indicating the significance of the project to China. Therefore, China attaches utmost importance to the successful operation of the pipeline.

Active engagements of China in upstream activities of Central Asian states should also be taken into consideration. China has bought equity fields in both Azerbaijan and Kazakhstan. It was in 2002 that CNPC acquired the 50 % share of Salyan oilfield. In 2003, CNPC acquired 31.41 % in Canub-Qarb Qobustan project. Although these projects hardly give a commanding position to China in the energy holdings of Azerbaijan, they are clear indications of active participation of China within the energy structures of the country that carry the potential to open new doors for future engagements. Chinese firms are active in not only acquiring equity

³⁶ Zha Daojiong, "China's Energy Security and Its International Relations", p. 52.

³⁷ Guo Xuetang, "The Energy Security in Central Eurasia: The Geopolitical Implications to China's Energy Strategy", *China and Eurasia Forum Quarterly*, Vol. 4, No. 4, 2006, p. 130.

³⁸ Farid Guliyev and Nozima Akhrarkhodjaeva, "The Trans-Caspian Energy Route: Cronism, Competition and Cooperation in Kazakh Oil Export", *Energy Policy*, No. 37, 2009, p. 3174.

shares in Central Asian countries; they are also active in the efforts of the acquisitions of significant energy companies. In 1997, CNPC purchased 60 % stake of Aktobemunaigaz firm of Kazakhstan. This project faced with several difficulties and cancelled in 1999.³⁹ In spite of this failure, China has been very active and determined in acquiring the shares of PetroKazakhstan.

PetroKazakhstan was an international oil company that was registered in Canada. All of the assets of the company were in Kazakhstan. PetroKazakhstan had 12 oil fields and exploration licenses in six blocks in Kazakhstan. Full ownership of the oil field Kumkol South and joint ownership of Kumkol North with Lukoil through a 50/50 joint venture were among the assets of the company. Moreover, Shymkent refinery, which is the largest refinery in Kazakhstan, was an affiliate of PetroKazakhstan. Proven reserves of the company were equivalent to 390 million barrels.⁴⁰ After intense negotiations and strategic bargaining with the parties involved, on 26 October 2005, CNPC takeover of PetroKazakhstan with acquisition of the majority of the shares was concluded. CNPC agreed to pay 55.00 dollars in cash per each share. Total amount of transaction was 4.18 billion dollars. Upon the takeover, CNPC became the second-biggest oil company in Kazakhstan.⁴¹

In addition to economic engagements that provide lucrative gains for each side, China is successful in initiating and pursuing institutionalized political engagements with the countries in the region. China makes use of her political linkages in satisfying her energy needs. Shanghai Cooperation Organization is another platform that China is active in promoting energy dialogue with partners. The Shanghai Five grouping was originally created in 1996 with the signature of the Treaty on Deepening Military Trust in Border Regions by the leaders of Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan. These five countries concluded the Treaty on the Reduction of Military Forces in Border Regions in 1997. It was in 2001 that the Shanghai Five (with the inclusion of Uzbekistan) signed the Declaration of Shanghai Cooperation Organization (SCO) with an aim of high levels of cooperation.⁴²

Throughout its history, the focus of SCO has evolved from border security counter-terrorism to military cooperation and its interests continue to diversify. In the sign of the broadening interests of SCO, energy ministers of the member states met in Moscow on 29 June 2007. The discussions centered about the energy issues, particularly oil. However, this initiative of SCO energy club has yet to develop

³⁹ Stephen Blank, "China, Kazakh Energy, and Russia: An Unlikely Menage a Trois", *China and Eurasia Forum Quarterly*, Vol. 3, No. 3, 2005, p. 103.

⁴⁰ Janet Xuanli Liao, "A Silk Road for Oil: Sino-Kazakh Energy Diplomacy", *Brown Journal of World Affairs*, Vol. 12, No. 2, 2006, p. 45.

⁴¹ Janet Xuanli Liao, "A Silk Road for Oil: Sino-Kazakh Energy Diplomacy", p. 48.

⁴² Sharif Shuja, "China's Energy Needs and Central Asia", *National Observer*, No. 67, Summer 2006, p. 59.

particularly far, and to date its purpose has been limited to conclusion of pilot energy cooperation projects.⁴³ Although it is clear that SCO is not a platform to discuss mainly energy issues, the ability to bring energy issues into the agenda, with no doubt, would provide another dimension of its emerging profile. It seems that China would have the intention of making use of this organization in promoting energy dialogues, at the same time.

Another important point that should be kept in consideration lies in the possibility of the state of inability of China in supplying energy from Central Asia. In the event of the failure to secure oil resources from Central Asia, from her western frontiers, China would push ahead with developing offshore energy sources in East and South China Seas. This would, in turn heighten the danger of deteriorating territorial disputes between China and her neighbors, particularly with Japan and Southeast Asian countries.⁴⁴ It is going to be too assertive and unwise to argue that this situation resulted in an energy Lebensraum for China. However, this fact might provide a reason for the neighboring countries to not to interfere in and obstruct Central Asian and Chinese energy engagements too much.

It should be indicated that China has patiently and skillfully built strong ties with Central Asian states in political, economic, strategic and diplomatic terms. These successful engagements open strengthen potentials of long term cooperation on energy studies with China and her Western neighbors. Initial distrust of her neighbors has given way to close economic links as China attempted to resolve border disputes, made investments in infrastructure projects and participated in lucrative economic activities in these regions. China has established trade missions in Central Asian countries. China has even promoted the revival of the ancient Silk Road era through economic integration.⁴⁵

This policy of promoting economic integration rather than pursuing a kind of a behavior of trying to keep Central Asian republics in her orbit as satellite states is also in the best interests of these republics. Central Asian republics have suffered from Russian domination for a long time. It is not surprising that a new dominant would not be appreciated. In this context it is important to address the State of the Union speech on 18 February 2005 of the President of Kazakhstan Nursultan Nazarbayev. Nazarbayev has stated that "Today we are witnessing superpower rivalry for economic dominance in our region. We have to address correctly this global and geo-economics challenge. We have a choice between remaining the supplier of raw materials to the global markets and wait patiently for the emergence of the next imperial master or to pursue genuine economic integration of the Central

⁴³ Jacob Townsend and Amy King, "Sino-Japanese Competition for Central Asian Energy: China's Gamet o Win", *China and Eurasia Forum Quarterly*, Vol. 5, No. 4, 2007, p. 35.

⁴⁴ Pak K. Lee, "China's Quest for Oil Security: Oil (Wars) in the Pipeline?", *The Pacific Review*, Vol. 18, No. 2, 2005, p. 279.

⁴⁵ Suboldh Atal, "The New Great Game", *The National Interest*, Fall 2005, p. 101-102.

Asian region. I choose the latter.”⁴⁶ It has been observed that China is present in the region that is willing and able to help Central Asian states to satisfy this mission.

CONCLUSION

It has been indicated that energy trade between China and Central Asia that is regarded to be the revival of the Silk Road in terms of energy trade has constructed a state of interdependence among the parties. It is observable that the interdependence under discussion that has been established through the use of energy trade is so strong that its effect and influence cover other issues. Cooperation on the field of energy trade transcend to other political and economic issues. Participants are careful not to deteriorate the well functioning of the ongoing cycle that is beneficial for all sides.

It is evident that both China and Central Asian states follow a kind of a policy of promoting economic integration rather than pursuing a superpower behavioral attitude in regional affairs. All sides are careful not to deteriorate the well being of the ongoing relationship. It should be indicated that Beijing regards energy deals with Central Asia as essential leverage to prevent these republics from encouraging factions that are not compatible with the Chinese policies.⁴⁷ It is mainly because of this fact that Central Asian republics did not intend to take part/interfere in the conflict in Xinjiang Autonomous region in China.

Various types of engagements between China and Central Asian states should be regarded as the formation of a two way road. It is obvious that more economic engagements provide a stronger ground for economic dependence. More dependence welcomes broader areas of interdependence. Partners would be careful in all areas of engagements not to threaten the steady continuation of lucrative relationships. Cooperation, rather than confrontation would bring the parties together. Inclusion, rather than exclusion would harmonize the best interests of all relevant parties. It is evident that both sides benefit from the revival of the Silk Road in terms of energy trade that creates the platform of interdependence among the parties in various issues. Partners are careful in formulating policies, diplomatic engagements and economic cooperation with third parties in order not to harm the benefits of the interdependence that have been constructed with the energy trade under consideration.

It is important to note that this kind of economic interdependence is an important affiliate of regional peace and stability. Furthermore, it should also be indicated that

⁴⁶ Cited in Stephen Blank, “Kazakhstan’s Foreign Policy in a Time of Turmoil”, *Eurasia Insight*, 27 April 2005.

⁴⁷ Stephen Blank, “The Eurasian Energy Triangle: China, Russia and Central Asian States”, *Brown Journal of World Affairs*, Vol. 12, No. 2, 2006, p. 54.

this kind of regional integration may open a way to global engagements for China. This may be regarded as a regional foothold for Chinese inclusion in international institutions which would contribute to the strengthening global peace and stability.

In this context, it should not be forgotten that energy trade among Central Asian republics and China, which can be regarded as the revival of the Silk Road in terms of energy trade, acquires not only an economic significance but owns a great amount of strategic importance at the same time. However, the success and the strength of every project are linked to the behaviors of the parties, as it is the case in almost all international engagements. The success of any kind of international engagement is directly proportional to the importance and prominence that have been attached by the participants. Energy Silk Road is no exception to that. It is evident that the new Silk Road cannot be accomplished on the cheap. It will require significant resources, regional cooperation and focus by policymakers.⁴⁸

(The author would like to thank to BE-SA Center)

⁴⁸ Alan Lee Boyer, "Recreating the Silk Road: The Challenge of Overcoming Transaction Costs", *China Eurasia Forum Quarterly*, Vol. 4, No. 4, 2006, p. 96.