

**ENERGY POLICY AND
ENERGY PROJECTS****CHINA'S ENERGY POLICY TOWARD
CENTRAL ASIA AND
THE IMPORTANCE OF KAZAKHSTAN****Zeki Furkan KÜÇÜK***M.S. student (Eurasian Studies),
Middle East Technical University
(Ankara, Turkey)**Introduction*

Oil has been a strategic commodity since the industrial revolution and it is the most influential element in contemporary world political history. When we observe historically important events, we can see that oil somehow affects these events and creates their causes. Good examples of this are World War I and II, the Gulf Wars, and the Oil Crises. Oil, as the only resource of the developed and developing countries, is likely to continue shaping world political history in the near future.

In this context, China has very interesting conditions. China has to overcome its energy hunger in order to continue its economic boom. However, China has an enormous population, which makes it very different from the other de-

veloping countries. In order to feed its 1.3 billion people and huge economy, China needs much more energy than other developing countries.

The existing situation in China has many similarities to the Central Powers' situation before World War I. The Central Powers completed their industrialization process later than other nations of the world; they could not gain control over the necessary raw materials and had to fight with the states that controlled these sources. China began its economic development in the 1970s, much later than the other important powers, and until 1993 it was self-sufficient in terms of energy. After that China began looking for energy resources elsewhere and started importing 60 percent of its oil from the Middle East, which is under the control of the U.S. The

Caspian Region, which is one of the richest oil sources in the world, is under the control of Russia. So the oil valves crucial for China's economic development are in the hands of other powers. This is why China is trying to find new energy resources, taking steps to diversify its energy sources, and making energy investments in Africa and South America. However, considering the size of its economy, it is almost impossible to feed the Chinese economy by means of these resources alone. This is why China wants to gain a stronger foothold in the Middle East and the Caspian Region.

China completed its economic development and, just like the Central Powers before World War I, began looking for more energy in every part of the world. In this context, we need to know whether China will follow an aggressive policy like the Central Powers or whether it will feed its economy by compromising with other powers.

In this context, China's western neighbor, Kazakhstan, is of great importance to it in terms of energy. Its geographical proximity, the safety of the transportation routes, and the absence of any hostile rivals in the region are the main advantages

of Kazakh energy for China. On the other hand, improving energy ties with China is also beneficial for Kazakhstan; it is dependent on Russia for sending its oil to the world markets because it does not have enough pipelines and transportation routes. This is why diversifying customers is crucial for Kazakhstan in order to continue its economic development. So China, with its increasing energy demand, presents a great opportunity for Kazakhstan. Kazakhstan can be a much more important energy actor if it manages to diversify its market and transportation routes.

The main aim of this study is to examine the importance of energy in developing Chinese-Kazakh relations in China's energy policies. The article consists of four parts; the first part examines China's energy demand in terms of oil, natural gas, coal, and nuclear energy, the second part discusses China's energy policy, the third part explains Kazakhstan's role in China's energy activities in the Kazakhstan energy market, and the last part looks at the effects of energy on China's foreign policy, especially in terms of its relations with Central Asia, Russia, and the U.S.

China's Energy Demand

China has the sixth largest economy in the world with its 10.17-trillion-dollar GDP.¹ Between the 1970s, when economic reforms were carried out and the country made its transition to "a socialist market economy" during the Deng era, and 2000, the Chinese economy has grown four-fold.² China was a self-sufficient state until 1993 thanks to its massive coal resources. After that it began to import an average of 3.2 million barrels of crude oil (according to the 2004 figures) per year and this amount has been increasing with each passing year.³ China is the second largest energy importer after the U.S.⁴

China's growing energy demand causes fluctuations in the world energy markets because of its 1.3 billion population and average 8% economic growth rate. China's increasing oil demand is one of the most important factors effecting the increase in oil prices. This is why China's energy policy is not just important for China but also for other oil producers and consumers in the market. China is aware of the fact that it is a key element in the world energy market; it wants to guarantee its position and energy security by making investments in oil-rich countries in addition to buying oil from them.

China has three state-supported companies in the energy sector. One of these companies, Sinopec (the China Petrochemical Corporation), was founded by merging the Petroleum Industry Ministry and

¹ See: *CIA World Factbook, China*, available at [<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>].

² *Ibidem*.

³ See: N. Pamir, "Çin ve Enerji Güvenliği," *Stratejik Analiz*, No. 66, October 2005, p. 66.

⁴ See: E. Downs, *The Brookings Foreign Policy Studies "Energy Security Series China"*, December 2006, p. 8.

the Chemical Industry Ministry in 1983.⁵ Sinopec is active in the south of China. Another important energy company in China, CNPC (the China National Petroleum Corporation), is China's largest energy company and it is active in the west and north of the country.⁶ The last company, CNOOC (the China National Offshore Oil Corporation), was transformed from a bureau inside the Petroleum Industry Ministry in 1982. This company is responsible for offshore exploration and exploitation activities.

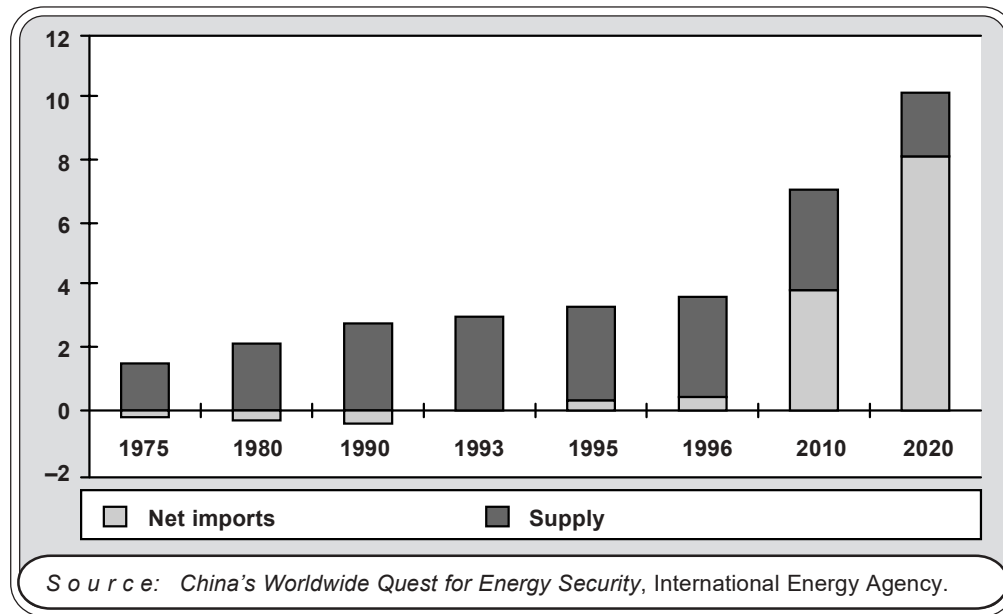
These companies took their first steps in the 1950s when they pursued a policy to create a ministry for every single heavy industry branch. In the 1980s, the Deng administration changed this policy and transformed these ministries into state-supported companies. These companies have great influence in the decision-making process in Beijing, especially in energy issues, since it was usually ex-bureaucrats who became the chairmen of these companies or ex-chairmen who were appointed to important posts in the state institutions. On the other hand, the state authorities also have a great influence on these companies in two ways; first, all appointments, promotions, and firing of administrative personnel in these companies are carried out by the Beijing government and, second, all the investments these companies plan to make must be approved by the state authorities. These companies create 22% of all the state-supported companies' profits and this is proof of their huge structure.⁷

Oil

Oil is a strategic key commodity for all the economies of the world. Oil is vital for improving industry and raising the standard of living. When we consider China's huge population and industry,

Figure 1

China's Oil Imports and Domestic Supplies



⁵ Ibid., p. 22.

⁶ See: B. Dokuzlar, H. Yılmaz, C. Pala, "Çin'in Orta Asya Enerji Politikası," *Avrasya Dosyası*, Vol. 12, No. 1, 2006, p. 302.

⁷ E. Downs, op. cit.

the importance of oil for China doubles. China is the second largest oil consumer in the world and this shows how important oil is for China and its huge economy.

China has 18.3 billion barrels of oil reserves. Eighty-five percent of this oil is produced in the Daqing region. China can produce 3,900.62 thousand barrels a day but, on the other hand, total consumption reaches 7,578 thousand barrels a day.⁸ So there is a huge gap between oil consumption and production in China. Chinese state officials are trying to fill this growing gap by importing oil from the Middle East, Africa, South America, and the Caspian Region. According to the U.S. Energy Department, China's energy consumption will reach 14,200 thousand barrels a day by 2025 and 10,900 thousand barrels of this amount will be imported from other countries.

Coal

China was a self-sufficient country in terms of energy until 1993 thanks to its significant coal reserves. China produces 69% of its energy from coal.⁹ China has 1,034.5 billion tons of coal reserves, which constitute 13% of world's total reserves and make China the third largest coal producer (according to 2006 values).¹⁰ The dominance of low quality lignite coal in China's energy creates significant problems in terms of air pollution. Because of the increasing importance of oil and natural gas and international pressure regarding air pollution, the coal domination rate in China's energy will decrease in the near future, but it will retain its importance in the long term. On the other hand, China is developing new technologies for using coal in different ways, such as manufacturing natural gas from coal, improving methane reservoirs of coal resources, and liquefaction of coal. Important international companies, such as BP and Chevron Texaco, are participating in these projects along with Chinese energy companies.¹¹

Natural Gas

Natural gas comprises a relatively small part of China's energy consumption. However, in order to decrease environmental pollution, Chinese decision-makers are trying to increase the use of natural gas, which is more environmentally friendly. According to 2006 values, China's natural gas production amounts to 1,960.0 billion cubic feet (bcf) and its consumption is 1995.3 bcf.¹² China has 53,325.0 bcf of proved natural gas reserves and these reserves are located in the Daqing Region in the north-west part of the country. According to the forecasts, China's natural gas consumption will increase to 2120.0 bcf by 2010 and will be 3500.0 bcf in 2020.¹³

In order to transport the natural gas produced in the north-west of the country to the economically developed cities in the east, the CNPC launched the West-East pipeline project in 2005. This pipeline pumps the natural gas produced in the Xinjiang-Uighur Region and Ordos Basin to Shanghai. In addition, China exported its first liquefied natural gas (LNG) in 2006 from the Guangdong LNG fa-

⁸ See: *Energy Information Administration, Official Energy Statistics from the U. S. Government, Country Energy Profiles; China*, available at [http://tonto.eia.doe.gov/country/country_energy_data.cfm?fips=CH].

⁹ See: N. Pamir, op. cit., p. 68.

¹⁰ See: *Information Office of the State Council of the People's Republic of China, "China's Energy Conditions and Policies,"* p. 4, available at [<http://en.ndrc.gov.cn/policyrelease/P020071227502260511798.pdf>].

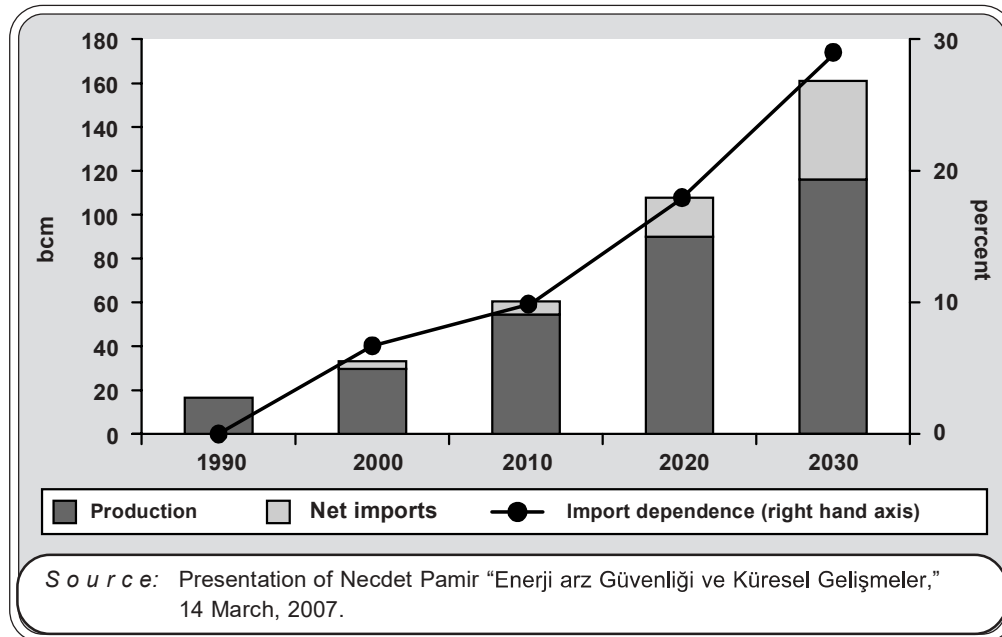
¹¹ See: N. Pamir, op. cit., p. 69.

¹² See: *Energy Information Administration, Official Energy Statistics from the U. S. Government, Country Energy Profiles; China*.

¹³ See: B. Dokuzlar, *Dünya güç dengesinde yeni silah: Doğal Gaz (Orta Asya'dan Avrupa'ya)*, IQ Kültür Sanat Yayıncılık, İstanbul, February 2006, p. 145.

Figure 2

Natural Gas Balance in China



cility. According to the Energy Information Administration's 2005 statistics, China exports 108.4 bcf of LNG. Beijing has begun building the Zhangzhou, Dalyan, Hebei, and Jiangsu LNG terminals.¹⁴

Nuclear Energy

China made its first step toward nuclear energy in keeping with Zhou Enlai's declaration on the need for the peaceful use of atomic energy in 1970. Construction of the first nuclear plant started in June 1983 and the Qinshan plant began operating in 1991. China's second nuclear plant is located in Daya Bay near Hong Kong. China has five nuclear power plants with seven units and three plants with four units under construction.¹⁵ Nuclear energy constitutes only 2.3% of China's total energy production. Nuclear energy is the third energy production method after thermal and hydro power.¹⁶

China's Energy Policy

China imports 20% of its energy from external sources and the U.S.-dominated Middle East constitutes 60% of these imports. Imported oil is transported via tankers via a long sea route that pass-

¹⁴ See: N. Pamir, op. cit., pp. 67-68.

¹⁵ See: *International Atomic Energy Agency, Country Profiles: China*, available at [http://www.pub.iaea.org/MTCDD/publications/PDF/cnpp2003/CNPP_Webpage/PDF/2003/Documents/Documents/China%202003.pdf], p. 212].

¹⁶ See: Xinhua News Agency, 27 September, 2004, available at [<http://www.china.org.cn/english/government/108139.htm>].

es through the Persian Gulf, the Strait of Hormuz, the Indian Ocean, Malacca, and the Strait of Taiwan. This transportation route runs through the most politically sensitive parts of the world. The tension between the U.S. and Iran in the Persian Gulf and Hormuz Strait, as well as the conflict in Taiwan, is akin to a bomb for China. Any instability along this route means stopping energy transportation to China and this situation will create a disaster for the Chinese economy. In addition, the length of this route increases transportation costs and creates another handicap. This is why China began looking for other energy resources and changing its transportation routes.

In this context China has turned to Africa and made significant investments in exploring and exploiting the resources in the region. China invested \$175 million in Sudan, Chad, Nigeria, Angola, Gabon, Algeria, Congo, and Equator Guinea in the first ten months of 2005 alone.¹⁷ Imports from Africa constitute 25% of China's total oil imports, but this rate is not enough to substitute Beijing's dependence on Middle East oil.¹⁸ Moreover, African oil is being transported along nearly the same sea route as the Middle East oil, which is why problems of transportation security and high transit costs still continue. Because of this the Chinese government is trying to diversify and change its oil sources.

Under these circumstances, Kazakhstan presents an important opportunity for China in the energy issue. First of all, Kazakhstan borders on China, thus transportation costs will be much lower than for Middle East and African oil. Kazakh oil can be pumped via a pipeline, thus eliminating tanker costs and other expenses. Second, the transportation route is much safer than other sources. Kazakhstan is one of the relatively stable countries in Central Asia and there is almost no chance of the pipeline being attacked. However, there is some unrest in the Xinjiang-Uighur Autonomous Region of China and this could create a handicap for the pipeline. But compared to the sea route from the Middle East and Africa, the unrest in the Xinjiang Region creates fewer problems for Beijing and the Chinese government can implement more effective measures on its own territory to protect the pipeline. There are no rival forces in the Caspian Region and in Kazakhstan that could create problems for China in its oil transportation. The Middle East is a playground for all the important powers of the world, which is why there is severe competition over the limited oil in the region. This is why it is rather difficult for China to be influential and be a competitor in this region. On the other hand, there is only one dominant force in Kazakhstan, Russia, which is China's strategic partner and does not compete with Beijing. This is why China can be more active in Kazakhstan than in the Middle East.

The Importance of Kazakhstan for China in Terms of Energy

Kazakhstan is the second largest oil producer among the post-Soviet states after Russia.¹⁹ Its proven oil reserves amount to nearly 30,000 thousand barrels and total oil production reaches 1,144.96 thousand barrels per day.²⁰ Its possible reserves are much more important than its proved reserves and this is the main factor that makes Kazakhstan an important actor in the energy market.

¹⁷ See: E. Pan, "China, Africa and Oil," Council on Foreign Relations, 26 January, 2007, available at [<http://www.cfr.org/publication/9557/#2>].

¹⁸ See: J. Mill, "China Covets African Oil and Trade," *Jane's Defence Business*, 12 October, 2004, available at [http://www.janes.com/business/news/jir/jir041012_1_n.shtml].

¹⁹ See: J. Majid, "Kazakhstan: Oil, Politics and the New Great Game," in: *The Caspian, Politics, Energy, and Security*, ed. by Shirin Akiner, RoutledgeCurzon, London, 2004, p. 202.

²⁰ See: *Energy Information Administration, Official Energy Statistics from the U. S. Government, Country Energy Profiles; Kazakhstan*, available at [http://tonto.eia.doe.gov/country/country_energy_data.cfm?fips=CH].

The main oil fields in Kazakhstan are Tengiz and Karachaganak, but most of the Kazakh oil comes from offshore sources in the Caspian Sea. The Tengiz oil field has been operated by Chevron-Texaco Company since 1993. The Karachaganak field is operated by a consortium called Karachaganak Petroleum Operating Partnership. British Gas and the Agip/Eni companies are the main partners of this consortium. The offshore Kashagan field is operated by Eni as a member of another international consortium.²¹

Kazakhstan also has a large amount of natural gas reserves. Its proved reserves are nearly 65,000 billion cubic feet.²² These reserves are mostly located at the Karachaganak field, while there are other large supplies at Tengiz, Zhanazhol, and Uritau. Although Kazakhstan has a significant amount of natural gas, it produces only 906 billion cubic feet. The most important reason for that is the outmoded production techniques, insufficient pipelines, and distance to the markets from the sources.

Today Kazakhstan meets 1% of the world's oil demand but its possible oil and natural gas reserves make it equal to the North Sea reserves.²³ However, Kazakhstan has significant problems that block its way in the energy market, the most important being the transportation routes. Kazakhstan pipelines were built during the Soviet era in order to transport oil within Soviet territory. This is why there are no pipelines to carry Kazakh oil to the world markets. Most Kazakh oil is pumped via the Atyrau-Samara pipeline. In 2002, thanks to the Caspian Pipeline Project, Kazakh oil began being directly transported from the Tengiz field to the Russian Black Sea port of Novorossiisk. From there Kazakh oil is transported to the oil markets via tankers.

Kazakhstan depends on Russia for sending its oil to the world markets. All the pipelines pass through Russian territory and make Russia a monopoly in Kazakhstan in terms of energy. When we consider that oil income constitutes 30% percent of Kazakhstan's budget revenue, it can be said that the Kazakh economy is in Russia's hands.

Under these circumstances, Kazakhstan must free itself from its dependence on Russia, find alternative ways to reach the world markets, and diversify its customers. Only then can Kazakhstan develop its economy without relying on Russia. So China presents a significant opportunity for Kazakhstan. China needs energy more than anything in order to continue its economic growth, and it also wants to diversify its energy sources.

Their geographical proximity, relatively safe transportation routes, and the absence of any rival forces are the main elements that bring these countries closer together. Transportation costs are the most important factor making Kazakh oil more expensive than other oil sources. Insufficient pipelines and having to send oil to the world markets via Russia reduce the appeal of Kazakh oil. Kazakhstan and China's geographical proximity reduces this effect and the direct link that ties these countries decreases the transportation costs. Moreover, the route that brings Kazakh oil to China passes through safer locations than those in the Middle East. Kazakhstan is one of the most stable countries in Central Asia and the Caspian Region Pipeline, which carries Kazakh oil, passes through Kazakh and Chinese territory alone. Only the unrest in the Xinjiang-Uighur Region could create a handicap, but this pales in comparison to the dangers posed by the route from the Middle East.

With these advantages in mind, China and Kazakhstan took their first steps in 1997 to start a profitable partnership in terms of energy. These countries entered an agreement for building a Chinese pipeline. This pipeline begins in Kazakhstan's Caspian port of Atyrau, passes through Kenkiyak and Atasu, and enters the Xinjiang-Uighur Region of China from Alashankou. From there the pipeline connects

²¹ See: J. Majid, op. cit., p. 202.

²² See: *Energy Information Administration, Official Energy Statistics from the U. S. Government, Country Energy Profiles; Kazakhstan.*

²³ See: J. Majid, op. cit., p. 203.

with the East-West Pipeline in Urumqi. China's CNPC and Kazakhstan's KazMunayGas are the main partners in this project. Construction of the first stage of the project, the Atyrau-Kenkiyak line, was completed in 2003, while the second stage, the 998-km-long Atasu-Alashankou line, was completed in 2006. Oil transportation has begun. When the third stage of the project is completed in 2011, this pipeline will be 3,000 km long, carry 20 million tons of crude oil, and meet 1/6 of China's oil demand.²⁴ In response to this huge pipeline project, China's CNPC won a tender to develop two of Kazakhstan's most important oil fields, Aktobe and Uzen, defeating important competitors like Amoco and Texaco. The main reason that the Kazakh authorities have chosen China was their desire to be more independent of Moscow and find new energy partners.²⁵ The CNPC also bought the Canadian-owned PetroKazakhstan Company in 2005 for \$ 4.2 billion. PetroKazakhstan is producing 9.5% of Kazakhstan's oil.²⁶

The Turkmenistan-China pipeline is another important pipeline project China is hoping to bring to fruition. In this project Beijing plans to link the Turkmen gas produced in the Dovletabat-Donmez region to the Kazakhstan-China pipeline through Uzbekistan. Although all the arrangements have been made this project has been stalled because of insufficient international investments.

Chinese Foreign Policy in the Energy Context

Sustainable economic development is the most important aim of China's state authorities. This is why energy is vital for Beijing and energy resources and transportation security constitute one of the most important aspects of China's foreign policy. Examining Chinese policy in light of the important actors in the Caspian Region is very important for understanding the effect of energy on China's foreign policy.

Relations with Central Asia

China-Central Asia relations expanded after the Soviet Union collapsed and the energy-rich Central Asian countries gained their independence. There are two main elements that shape Chinese policy towards Central Asia; first, oil and gas transportation security and, second, the separatist movements in the Xinjiang-Uighur Region.²⁷

China began looking for new energy resources after the U.S. penetrated into the Middle East where Beijing obtains most of its energy. Later China became more interested in the Central Asia countries. The energy resources of the Central Asia countries have great advantages for China although they are not as highly ranked as those of the energy-rich countries. The geographic proximity of the Central Asia states reduces transportation costs and creates safe transportation routes. First of all, China regards these countries as trade partners; Chinese companies have made large investments in these countries, especially in Kazakhstan. Mutual interests helped to enhance China-Central Asia relations. China neither regards these countries as its "backyard," like Russia, nor uses the

²⁴ See: B. Dokuzlar, H. Yılmaz, C. Pala, op. cit.

²⁵ See: F.K. Chang, "Chinese Energy and Asian Security," *Orbis*, Vol. 45, Issue 2, Spring 2001, pp. 233-234.

²⁶ See: A. Nogayeva, "Çin-Kazakistan İlişkilerinde Yeni Dönem," available at [<http://www.tusam.net/makaleler.asp?id=789&sayfa=26>].

²⁷ See: J. Majid, op. cit., p. 213.

expression “elder brother,” like Turkey. Nor does China establish alliance relations with these countries founded on military bases, like the U.S. In short China does not try to maximize only its own interests in its relations with Central Asia; it makes investments in these countries, contributes immensely to their economy, and protects their interests too. It tries to create a “win-win” situation. This policy of China’s is beneficial for the governments of Central Asia states and they prefer China in their trade relations.

Russia is still a key actor in Central Asia. Although the Soviet Union has collapsed and Russia no longer has control over Central Asia, Moscow is trying to maintain its political and economic influence over the region. The economies of the newly independent countries in particular are still under heavy Russian dominance even after 18 years. Russia declared in its strategic plans in 1993 that it would interpret any external penetration into its Near Abroad as hostile and make an adequate response to this penetration.²⁸ Although Russia has had to greatly adjust this policy after the U.S. increased its presence in Central Asia following 9/11, it is still a predominating force in the region and has significant influence over it. The Central Asian pipelines and trade routes are all associated with Russia thanks to Soviet heritage and they cannot sell their natural resources to the world markets without Russia’s permission. This means that Russia holds the oil and natural gas valve of the Central Asia states and makes them dependent on it in terms of energy and economy. This situation has created unrest among the decision-makers of the Central Asian states.

After perforation of Russia’s Near Abroad policy in the post 9/11 era, a new period began for the Central Asia states. Extra-territorial actors managed to enter Central Asia and created opportunities for the regional states to diversify their economic partners. Penetration of the U.S. and western companies and China’s increasing attention toward Central Asia are paving the way for severing their dependence on Russia and standing on their own feet. This is why the governments of the Central Asian states do not interpret China’s penetration into the region as expansionist.

The separatist movements in the Xinjiang Region are another issue that affects China’s relations with Central Asia. After the Soviet Union collapsed and the Turkic nations of Central Asia gained their independence, Beijing was alarmed by the attempts of the Uighur Turks of the Xinjiang Region to acquire their independence. This is why China has been trying to establish friendly relations with the newly born Central Asia states in order to prevent their support of the separatist movements in the Xinjiang Region. Central Asia is extremely important for China in terms of the Uighur Turks, because there are strong ethnic, linguistic, and religious ties between the Uighurs in China and the Central Asia states.

The road to preventing separation of the Uighur Turks in China lies through the Central Asia states and stopping their support of the Uighurs in China. This is why China is using its economy to curtail the support of the Central Asia states, which are in an economically poor state. The governments of the Central Asia states dependent on oil and gas revenues do not want to annoy Beijing and lose an important customer. This is why they will not support the separatist movements in the Xinjiang Region.

On the other hand, China’s dependence on Middle East oil creates disadvantages for Beijing in terms of its policy against the Muslim community in the Xinjiang Region. China is afraid of the reaction of the Muslim Middle East countries to the Chinese government in its policy regarding the Muslim Uighur people and interruption of its energy policy.

China’s interests in Central Asia are not limited to the energy issue. Its policy towards this region will either make it a superpower or make it lose control of its developing economy, territorial integrity, and political power.

²⁸ M. Kibaroglu, “Rusya’nın Yeni Ulusal Güvenlik Konsepti ve Askeri Doktrini,” *Avrasya Dosyası*, February 2001, p. 6.

Relations with Russia

Russia is another of China's important energy partners and energy is one of the most important subjects in Chinese-Russian relations. Russia can use its significant oil and natural gas resources as a weapon against other countries. However, Russia is also using this weapon as a way to keep its allies dependent on its energy. Russia has used this strategy against China too. By approving transportation of Siberian oil to China, Russia strengthened its political and military relations in terms of energy. The oil which comes from the Republic of Sakha, Kovykta, and the west Siberian regions of Russia reaches the Pacific shores of China via three different lines; Kazakhstan, Mongolia, and East China.²⁹ The East Siberia- Pacific Ocean Pipeline project (ESPO) is the most important project for transporting Russian oil to China through Eastern China. The Russian Transneft Pipeline Company is making plans to finish construction of this 2,694-km-long pipeline in the near future.³⁰ There are projects to lengthen this pipeline to South Korea and Japan through China.

During the Cold War, both Russia and China could not establish close relations, even though they were both socialist states. However, after the collapse of Soviet Union and the end of the Cold War, these countries turned a brand new page in their relations and established close ties based on energy and opposition to the U.S. The U.S.'s policy in Eurasia, especially after 9/11, annoys both Russia and China and is bringing them closer. Although they do not declare it openly, the main factor behind the Russia-China alliance is opposition to the U.S. Russia and China as regional powers want to prevent penetration of the U.S. into their zone of influence. After 9/11 the U.S. implemented its policy in the Central Asia region on the pretext of fighting terrorism, and China and Russia could not object to its policy. This situation caused perforation of Russia's Near Abroad policy. So Putin wanted to reverse this process and limit the actions of the U.S. in its backyard. Russia realizes that it cannot resist U.S. policy on its own, which is why it creates alliances, such as the Shanghai Cooperation Organization and the Commonwealth of Independent States, and acquires the support of other important powers in Asia. In this respect, China as the second largest military force is Russia's most important ally. The honeymoon between Russia and China will continue as long as the U.S. threat exists in Asia.

Another important issue that brings these countries together is threats to their territorial integrity. China's Taiwan and Xinjiang problems and the separatist movements in Russia's Northern Caucasus, especially in Chechnia, have created a common enemy for both states and promoted their cooperation to combat these threats. This is why Russia and China as the main actors in the Shanghai Cooperation Organization are focusing their attention on "fighting separatist movements" and confirm that the organization's top priority is combating "separatism, terrorism, and extremism." Separatism as a common threat to both China and Russia has created a psychological effect and increased their cooperation.

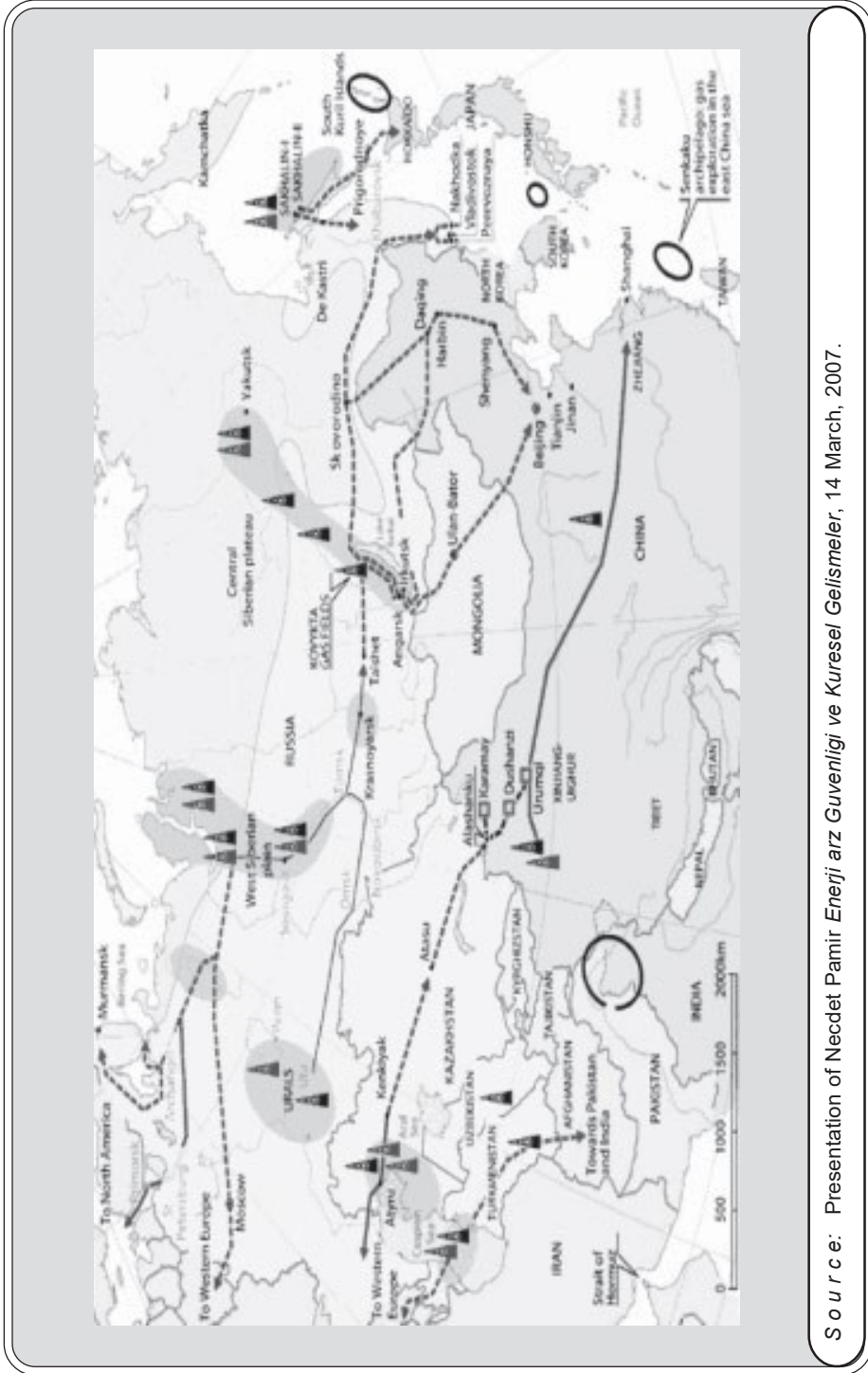
Although both China and Russia regard each other as strategic partners, there are also some problems between these countries. Russia's decreasing population is one of these problems. On the other hand, China, the most densely populated country of the world, cannot fit into its boundaries. The Chinese population in Siberia and the Far East is increasing with each passing day and this situation is creating unrest not between the states but between the societies. Another important problem is the overlapping spheres of influence of these countries. Both China and Russia want to be influential in Central Asia. Russia does not object to China penetrating into its backyard because of their alliance developments. However Chinese-Russian cooperation in Central Asia may be a source of dispute in

²⁹ See: B. Dokuzlar, op. cit., p. 148.

³⁰ See: S. Blagov, "Arms, Energy and Commerce in Sino-Russian Relations," Jamestown Foundation, Vol. VII, Issue 16, 8 August, 2007.

Map 1

Pipelines of China



Source: Presentation of Necdet Pamir Enerji arz Guvenligi ve Kuresel Gelismeler, 14 March, 2007.

the future if the interests of these countries clash. Opposition to the U.S. helps to cement relations between these countries and makes Russia and China forget their historical problems. However, if the U.S. threat disappears the old problems and conflicts may appear again.

Relations with the U.S.

The U.S. has become one of the most important actors, especially after 9/11. There was no U.S. military presence in Central Asia until the terrorist attacks on the World Trade Centre and Pentagon. Washington used diplomatic and commercial ties to implement its policy regarding this region.³¹ But 9/11 opened a new page in U.S. foreign policy and created the necessary prerequisites for U.S. decision-makers to implement a more aggressive policy in the Eurasia region under the pretext of waging a “war on terror.” After 9/11, the U.S. penetrated rapidly into Asia by means of its military operation in Afghanistan and military bases in Kyrgyzstan and Uzbekistan. China and Russia, which are the main regional powers, were unable to object to this sudden and decisive penetration and the U.S. managed to implement its policy in this free atmosphere.

The U.S.’s main aim is to gain greater control over the rich energy sources of Central Asia and the Caspian. The U.S. wants to guarantee energy transportation security in the region. In order to ensure uninterrupted flows of energy to the world markets from this region, a stable political environment is *sine qua non*. This is why the U.S. supports governments that create a suitable atmosphere for secure energy transportation, even though they are undemocratic. It is also trying to shape the region according to its interests through the “war on terror” concept.

The U.S.’s “war on terror” concept created some advantages for Russia and China. The declaration of a war on terror by the world’s only superpower and its supporters caused fear among the actors who are creating a suitable environment for the spread of terrorism, and they had to curtail their support. This situation meant that the radical Islamist movements in the Xinjiang Region and the Caucasus could not obtain external economic and logistic support. This situation attenuated the Islamist movements and strengthened Beijing and Moscow.

On the other hand, China has been using the “war on terror” concept as a pretext to resort to force in the Xinjiang Region. The U.S. has been using extremely harsh methods in Afghanistan and Iraq against Islamist fundamentalists and no one even dared to object these procedures. This situation gave China more freedom to act as it saw fit. Beijing labeled every opposed idea as radical Islamist and erased it. On the other hand, the U.S. supported China’s policy in the Xinjiang Region because of the presence of terrorist organizations, such as Hizb ut-Tahrir, in this region. The U.S. wants to stop any possible support of the Taliban in Afghanistan and prevent any Islamist formation in this region.

However, although there are some radical Islamist movements in Xinjiang, they cannot be marked as terrorist. There are different movements with different aims, such as equality with the Han Chinese and reforms in civil rights. There are significant human right violations in Xinjiang but they are not being taken into account by either China or the U.S.

However it is obvious that the U.S. presence in Central Asia is creating immense difficulties for China. A permanent U.S. presence in the sphere of influence of both Russia and China is the last thing that Beijing and Moscow want. China feels the U.S. presence in its east in Taiwan, South Korea, and Japan. If the U.S. manages to settle in Central Asia, China will be surrounded by the U.S. just like it was by Soviet Russia during the Cold War. This creates significant handicaps for Beijing in terms of security, economy, and, if we consider U.S. support of Taiwan, territorial integrity.

³¹ See: J. Majid, op. cit., p. 212.

That is why China is cooperating with Russia in order to limit or put an end to the U.S. presence in their backyard. Both countries are making use of the SCO to gain the support of the other states in the region and create a bloc against the U.S. The SCO bloc managed to close the U.S. military bases in Kyrgyzstan and Uzbekistan. China cannot allow a permanent U.S. presence in Central Asia; this situation may have significant economic and political consequences for Beijing. This is why Central Asia may become an important area of rivalry between the U.S. and China, with energy likely being the key actor in this rivalry.

Conclusion

China is the fastest developing country today and it may become the largest economy in next couple of decades. Sustainability of economic development is the most important aim of the Chinese authorities. The economy is the key that opens the door for China to become a superpower. It is also using its economy as a diplomatic weapon against other countries in order to implement its policy. By the same token, China's armed forces are still not powerful enough to be deterrent against the great powers of the world. This is why China is using its economy with respect to relatively small countries in order to draw them to its side and form public opinion against the policy of other large forces. We can observe this policy in the South Eastern countries of Asia. There is a large Chinese diaspora in these countries with immense lobbying power. On the other hand, these countries are extremely dependent China in terms of external trade. China tries to solve its problems through diplomacy as much as possible and avoids armed conflicts, while its economy is the most important element in Chinese foreign policy.

On the other hand, its economic development is the glue that keeps the Chinese people together. There are significant social problems among the Chinese people emanating from unequal distribution of economic revenues. There are large gaps between the rich minority on the industrialized East coast of the country and the poor majority in the agricultural West. Beijing gives priority to economic development and ignores these social problems for now. The Chinese authorities suppress any social unrest using force and do not allow any objections to its policies. But this situation constitutes an important threat to China's future and may lead to dissolution of the country keeping in mind the Taiwan, Xinjiang, and Tibet problems.

The economy is not just important for national wealth but also important in terms of foreign and domestic policies. This is why energy as a vital element since it augments the significance of China's economy. The fastest developing country of the world naturally needs much more energy than other developing countries in order to feed its 1.3 billion people and massive industry. This situation creates debility for China and makes its vulnerable to external effects. In order to avoid this situation the Chinese authorities have decided to diversify their energy sources and curtail their dependence on only one source and transportation route.

In this respect, Caspian energy sources, especially Kazakhstan, appear very propitious for China. China has made investments in Africa and South America in order to implement its source diversification policy and curtail its dependence on the U.S.-dominated Middle East. But Caspian sources are the most feasible and profitable for China. The geographic proximity, security of the transportation routes, and suitable political atmosphere of the region are the main elements that make these sources appealing to China as a substitution for Middle East oil.

On the other hand, building energy relations is also beneficial for the Caspian countries. Kazakhstan is the most propitious in this respect since it borders directly on China. Kazakhstan is dependent on Russia economically and has to send its oil to Russia first in order to reach the world markets

since it does not have enough pipelines. This situation makes Kazakhstan heavily dependent on Russia and causes great handicaps for Kazakhstan in its transition to an independent nation state. In order to stand on its own feet and be an independent country in every respect on the political arena, Kazakhstan must diversify its customers. Oil income provides the main flow of revenue into the Kazakh economy which means that customer diversification will create competition under free market conditions and increase this revenue. Kazakhstan is in a very suitable geographical position for diversifying its customers; it has a long border with China and Russia, two of the main economic and political actors in the region, and is geographically close to other important economic actors, such as Japan, South Korea, and Turkey. China is the most suitable of these countries thanks to its giant economy, population, and energy hunger. China is also making large investments in Kazakhstan both in the energy and other sectors. Beijing does not have a colonial approach to Kazakhstan and the other Central Asia countries, it only has mutual interests at heart. This is why the Kazakh authorities prefer Chinese companies for their investments.

Chinese policy is part of the “new great game” in Central Asia. In contrast to the historical great game, the number of players in this new great game has grown and the game rules have shifted from military and political aspects to the economy. China is trying to maximize its interests in this new great game and limit the opportunities of other players. In order to reach this goal it is creating alliances with other game players, such as Russia and Iran. There are two main blocs in new great game consisting of China, Russia, and Iran, on the one side, and the U.S. and Turkey, on the other.

China is moving toward becoming a superpower and its economy may either be its biggest advantage or its biggest weakness on this path. If it can continue its economic development and project this onto its military and political power, it will easily become a superpower. However energy is the most crucial element in shaping China’s future. If it cannot establish its energy security and secure a continuous energy flow, its greatest weapon, the economy, may collapse and create a disaster for China.