

ENERGY POLICY AND ENERGY PROJECTS

THE GREAT OIL AND GAS ROAD: FIRST RESULTS AND PROSPECTS

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ABSTRACT

The geopolitical changes associated with the collapse of the Soviet Union and the emergence of the newly independent states in its territory have led to the appearance of a large number of new pipeline projects. Some of the new projects concerned the delivery of oil and gas in the European (westerly) direction, while others were aimed at creating infrastructure for exporting hydrocarbon resources in the easterly direction—from the Central Asian countries to China.

In the 1990s, China began implementing a new energy policy. It was oriented toward gaining direct access to the hydrocarbon resources of the Central Asian countries and creating reliable routes for exporting oil and gas to China. Diligent and persevering

implementation of this policy ultimately made it possible for Beijing to build a new pipeline infrastructure in Central Asia oriented toward meeting China's hydrocarbon resource requirements. So it is legitimate to say that a Great Oil and Gas Road is being formed that relies on the historical heritage of the Great Silk Road and articulates the political and economic changes occurring in China's policy toward the Central Asian countries.

It stands to reason that we need to tread carefully when drawing such historical parallels. Relations among the countries differ, new forms of transport have been created, and fundamentally new technological achievements have been reached. Appealing to the historical heritage of the Great Silk Road has activated interstate contacts and the need to

expand economic trade cooperation. And whereas “silk road” was commonly used as a general term for describing the large number of caravan trade routes with a few major branches that linked China with Asia and Europe, the current pipeline architecture serves as a new set of regional relations. In contrast to the Great Silk Road, which covered an enormous territory, the Oil and Gas Road has geographic boundaries confined by the east coast of the Caspian Sea.

It is very interesting to trace the stages China has passed through in its effort to establish a Great Oil and Gas Road, as well as study the approaches to its formation. Despite political and financial difficulties and the active policy of non-regional states in Central Asia, China has succeeded in forming new energy flows by incorporating the regional countries into the orbit of its geopolitical influence.

China’s creation of new export routes, to which the concept “Great Oil and Gas Road” can be suitably applied today, went

through several stages, each of which developed under the influence of different factors. These are primarily the unstable geopolitical situation, the constantly changing data about hydrocarbon reserves, the demand for hydrocarbon resources, and the price of oil and gas in the world markets, as well as the technological possibilities allowing to develop new hard-to-access deposits.¹ Nevertheless, in contrast to the large-scale European pipeline projects, many of which have not emerged from the discussion stage, the Great Oil and Gas Road has been translated into action. Moreover, China is continuing to pursue a policy aimed at increasing its presence in the energy sector of the regional countries and at initiating new large-scale pipeline projects.

¹ See: S. Zhiltsov, “Energy Flows in Central Asia and The Caspian Region: New Opportunities and New Challenges,” *Central Asia and the Caucasus*, Vol. 15, Issue 4, 2014, pp. 69-79.

KEYWORDS: *China, Great Oil and Gas Road, Great Silk Road, Central Asia, hydrocarbon resources, pipelines.*

Introduction

The concept of the Great Silk Road appeared relatively recently. It was coined by geographer Ferdinand von Richthofen in 1877 in the book called *China*. The collective name Great Silk Road included a large number of caravan routes going from China to Europe, which passed through vast territories. This route existed from the second century BC until the 15th century AD.

The Great Silk Road was an enormous, temporally mobile historical and cultural space used in Antiquity and the Middle Ages to facilitate international land communication from the distant boundaries of Asia to the countries of the West.² The numerous caravans delivered a variety of goods, among which were silk, weapons, and jewelry. At the same time, several researchers point out that trade was only carried out in some of the sections of the Silk Road and on a small scale. This casts doubt on the conclusions about extensive trade flows that spread out over vast areas.³ Nevertheless,

² See: A. Petrov, *Veliky shelkovy put (o samom prostom, no malo izvestnom)*, Vostochnaia literatura RAN, Moscow, 1995, p. 46.

³ See: V. Khansen, *Veliky shelkovy put. Portovye marshruty cherez Sredniuiu Aziyu. Kitai-Sogdiana-Persia-Levant*, Tsentrpoligraf, Moscow, 2014, p. 386. (Valerie Hansen, *The Silk Road. A New History*, Oxford University Press, New York, 2012.)

the Great Silk Road is recognized as a global project that promoted the development of trade relations between countries and peoples. The longest stretch passes through territory currently occupied by the CA countries.

Interest in the Great Silk Road project has passed through several stages. At the first stage, it was a matter of preserving the cultural heritage. For example, study of the Great Silk Road began in the second half of the 20th century. At the end of the 1980s, an international project was organized under the auspices of UNESCO called “Integral Study of the Silk Roads: Roads of Dialogue.” The project envisaged carrying out three large expeditions along steppe, desert, and maritime routes. The expedition program included examining, evaluating the state of, and comparing architectural monuments of the silk roads, as well as geographical research and learning about the conditions in which people lived.⁴ Later, the concept of the Great Silk Road was used to develop numerous projects aimed at expanding economic trade and energy cooperation. Introducing the concepts “Great Silk Road” and “New Great Silk Road” into circulation played an enormous role in the development of political, trade, and cultural contacts among different countries.

The idea of creating a new version of the Great Silk Road formed the basis of the political and economic initiatives of Western countries looking for ways to expand their presence in the newly independent states that formed in the territory of the former Soviet Union at the beginning of the 1990s. The initiatives they put forward were intended to promote economic integration and expand transportation cooperation among the states of Western Europe, the Caucasus, and Central Asia. For instance, in 1998, a Europe-Caucasus-Asia international transport corridor program was offered that envisaged forming a transport corridor from China to Europe. Then, at the end of the 1990s, a New Silk Road project was proposed in the U.S. that was never developed. In 2011, the Barack Obama administration publicized a New Silk Road concept that proposed creating transport infrastructure for linking Central and Southern Asia through Afghanistan and liberalizing regional trade.⁵

The ideas proposed to create trade and transport routes were largely political. They did not propose establishing supranational formations and did not clarify where the money would come from; they mainly acted as additional tools for expanding political contacts. What is more, the authors of the new version of the Silk Road did not point to any precise geographic boundaries, or departure and destination points.⁶

Nevertheless, despite the very modest success in realizing these initiatives, interest in the historical heritage of the Great Silk Road did not abate. China, with which the Great Silk Road is essentially associated, was one of the initiators of reconstructing or building a new version of this historical route.

China’s Advance into Central Asia

China’s cooperation with the CA countries, and during Soviet times with the republics of Central Asia, began developing at the end of the 1980s. At that time, China entered agreements with the former Soviet republics on the development of economic, scientific-technical, and cultural cooperation.

The collapse of the Soviet Union led to the formation of newly independent states—Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan, and Tajikistan—as well as to drastic changes in China’s

⁴ See: V. Radkevich, *Veliky shelkovy put*, Agropromizdat, Moscow, 1990, p. 8.

⁵ See: T. Cheklina, “Perspektivy sotrudnichestva stran Shanhaiskoi organizatsii sotrudnichestva v ramkakh proekta “Ekonomicheskii poias na Velikom shelkovom puti,” *Rossiiskiy vneshneekonomicheskii vestnik*, No. 2, 2015, p. 31.

⁶ See: Yu. Tavrovskiy, *Xi Jinping: po stupeniam kitaiskoi mechty*, Eksmo, Moscow, 2015, pp. 170-171.

policy in the region. In the first half of the 1990s, China focused its economic trade expansion efforts on the economically and politically weak CA countries. The unregulated development of trade relations, along with the weak political regimes and augmenting economic problems of the regional countries, provided Beijing with ample opportunity to build its trade and economic presence in CA, while placing increased focus on the oil and gas of the Central Asian states. China primarily set its sights on Kazakhstan and Turkmenistan, which had the largest reserves of hydrocarbon resources and were interested in fortifying their economies and political position by building new pipelines in the easterly direction.

New pipeline projects appeared at that time, which can be seen as the first steps toward reviving a contemporary version of the Great Silk Road.

China's increased interest in the Great Silk Road project was a response to the geopolitical changes that occurred after the disintegration of the Soviet Union. The newly independent states situated in the expanses of Central Asia abruptly cut back their political and economic ties with Russia and were looking for new foreign political and economic partners. In turn, the rapid development of China's economy increased its need for the region's hydrocarbon resources. As a result, Beijing began viewing the Central Asian countries as an additional source of the oil and gas it needed for its further development.

The Beginning of the Great Oil and Gas Road

Emergence of the Great Oil and Gas Road is inseparably related to the numerous pipeline projects that were actively discussed at the beginning of the 1990s. They launched the formation of the Great Oil and Gas Road and redirected the oil and gas flows from north-south to east-west.

In 1992, the *Turkmenistan-China-Japan gas pipeline* with an annual capacity of 30 bcm a year and 8,000 km in length was developed. The China Petroleum Engineering and Construction Corporation took part in its planning. The matter concerned transporting gas from Turkmenistan to Southeast Asia. The pipeline was to become part of an extensive gas pipeline network linking Turkmenistan, Uzbekistan, and Kazakhstan with consumers in China, South Korea, and Japan.

In 1993, *Asian Pipeline Research Society of Japan* presented conclusions and proposals for a Trans-Asian gas pipeline project. The *Northeast Asia and North Pacific Ocean gas pipeline* was examined among the many versions of international pipeline routes set forth in the document. The international *Turkmenistan-West China-Japan gas pipeline* was part of this route. The idea was to pump gas from Turkmenistan to Shanghai and other coastal territories of China by building a pipeline through the gas-bearing territories of the Tarim Basin in West China. In so doing, some of the natural gas could be exported to Japan via an underwater pipeline. The Chinese government showed an interest in this project at the time.

In the second half of the 1990s, China's policy toward the Central Asian countries underwent changes. Beijing concentrated its efforts on the further development not only of economic relations, but also in the energy sphere. These changes in Beijing's policy were caused by the greater competition over the hydrocarbon resources of the Caspian region and Central Asia and for control over their delivery routes to the external markets. This explains China's greater interest in Turkmen and Kazakh hydrocarbon resources, as well as in their delivery routes to China.

The discussion about organizing deliveries of Turkmen gas and Kazakh oil to China began in 1996. At that time, Turkmenistan and China specified their positions and outlined the contours of the future pipeline arteries. The same year, a tender was announced in Kazakhstan for the sale of the government's shares in AO Uzenmunaigaz in the amount of 60% of the authorized fund. Amoco (the

U.S.), Petronas Charigali (Malaysia) along with Unocal (the U.S.), and the China National Petroleum Corporation (CNPC) participated in the tender. In August of 1997, the China National Oil & Gas Exploration and Development Corporation, which is a subsidiary of CNPC, was announced the winner of the second tender; the company received 55% of Uzenmunaigaz's shares. Some time earlier the CNPC won the tender to purchase another company, Aktobemunaigas. Over a span of 20 years, China was supposed to allot \$4 billion to the development and operation of the fields owned by the bought-out companies. In the end, the Chinese side acquired the control sets of shares of two enterprises responsible for the production and transportation of oil—Aktobemunaigaz and Uzenmunaigaz. The pipeline was supposed to stretch for 2,600 km, but in order for it to bring oil to its end consumers in the Chinese interior, the length of the pipeline had to be increased to 8,000 km. The Chinese planned to build this route by 2004, when Kazakhstan, according to different estimates, might need additional oil export routes, including and keeping in mind the Caspian Pipeline Consortium (CPC) oil pipeline through Novorossiisk that went into operation in 2000. A separate paragraph in the agreement envisaged the *Uzen-Turkmenistan-Iran pipeline*. It stretched for 250 km through Kazakhstan. There were plans to pump 8.2 million tonnes of oil from the Uzen field alone by 2002.

A specific discussion of oil deliveries to China took place during Prime Minister of the PRC State Council Li Peng's official visit to Kazakhstan in September 1997. At that time, two intergovernmental agreements were signed On Cooperation in Oil and Gas and On Laying Two Oil Pipelines from Western Kazakhstan to Western China and Iran. The Chinese side pledged to carry out development and building of the Western Kazakhstan-Western China oil pipeline of 3,000 km in length and invest \$3 billion. The matter concerned transporting oil from two of the largest fields—Uzen and Aktobe. In so doing, Kazakhstan took the first step toward implementing a policy aimed at extending the geographical boundaries of its export oil delivery routes.

The signed contract envisaged that China's investments in Kazakhstan's oil and gas industry would comprise a total of \$11 billion and would go to developing oil fields and building oil pipelines to Western China and Iran. The Chinese company was given priority for either economic—the total expenditures of the CNPC at the two tenders amounted to almost \$500 million—or political reasons—the promise of a strategic partner underpinned by oil pipeline building projects.⁷ According to the feasibility report of the oil pipeline project from Kazakhstan to China, it was to pump no less than 20 million tonnes of oil a year.

Several circumstances interfered with execution of the signed documents on oil and gas cooperation and building the oil pipeline from Kazakhstan to China. The complicated internal political situation in Kazakhstan and the drop in oil prices led to China's diminishing interest in building an oil pipeline that was not economically lucrative at the time.

China took a greater interest in Turkmen hydrocarbon resources. Turkmen President Saparmurad Niyazov discussed this project during his visit to China in August 1998, the cost of which at that time was estimated at between \$8 and \$12 billion. At the end of October of the same year, the feasibility report for this project was finished. One of the priorities of the joint trade and economic commission created during the visit was to accelerate implementation of a gas pipeline project. If successfully laid, the pipeline would be a backbone of the ancient Great Silk Road being revived in its contemporary version.

Ashgabad was well-disposed toward China's interest in acquiring Turkmen gas. Its positive attitude was influenced by the difficult relations with Russia during the first half of the 1990s, which convinced Ashgabad that it needed to have alternative routes for delivering its hydrocarbon resources. There were several directions for this: the southern, southeastern, and eastern. The first

⁷ See: K. Syroezhkin, *Kazakhstan-Kitai; ot prigranichoi torgovli k strategicheskomu partnerstvu*, Vol. 1, Almaty, 2010, p. 160.

proposed laying a gas pipeline through Afghanistan to Pakistan, while the second envisaged a route to Turkey through Iran, Azerbaijan, Armenia, Georgia—depending on the particular configuration—and on to Europe. However, the difficult situation in Afghanistan and the U.S. sanctions against Iran made it impossible for Turkmenistan to count on rapidly building pipeline infrastructure in the direction of these countries. There was another, eastern, direction for delivering gas to China. Moreover, Chinese companies were willing to invest in the construction of new pipelines that were to bring Turkmen hydrocarbon resources to China.

At that time, the *Turkmenistan-Western China-Japan* project, like other large-scale projects, was considered unprofitable due to the low world gas prices at the time, as well as the high cost of the project—around \$9 billion. In the end, work was halted. However, a few years later, after world gas prices rose, the project was in demand again.

Activation of Beijing's energy policy toward the CA countries at the beginning of the 2000s was related to the growing needs of the Chinese economy. The numerous consultations and negotiations between Kazakhstan and China regarding the building of an oil pipeline ended in July 2000. Incidentally, even this agreement was unable to get the project going, showing the futility of the political talks that had been going on for several years between the two countries regarding the oil pipeline. This was explained by the absence of the necessary resources for the future oil pipeline, since the Chinese company operating in Kazakhstan was producing around 5 million tonnes of oil a year. For the pipeline to be profitable, at least 20 million tonnes had to be pumped through it. Moreover, in 2001, the CPC went into operation, and the *Atyrau-Samara pipeline* reconstruction project, which envisaged increasing the volume of oil pumped through it, was at the practical implementation stage. This meant that there would be no free volumes of oil for delivery to China via the pipeline in Kazakhstan. The only hope was development of the Caspian shelf, but there were certain difficulties there too: the super long distances, absence of infrastructure, mountainous terrain, seismic zones, abrupt climatic fluctuations, the low quality of Kazakh oil and the need to heat it, and so on. All of this made construction more expensive. Nevertheless, during his visit to Beijing in December 2002, Kazakhstan President Nursultan Nazarbaev again stated that energy, oil, and gas, as well as building an oil pipeline and a gas pipeline from Kazakhstan to Western China, were the main targets of cooperation between Kazakhstan and China. The Treaty on Good Neighborly Relations, Friendship, and Cooperation between China and Kazakhstan signed during the visit bolstered this cooperation in the energy sphere.

Despite the various difficulties, at the beginning of the 2000s, Kazakhstan succeeded in activating the projects for building a pipeline to China. In October 2003, China and Kazakhstan returned to the idea of building a global *Western Kazakhstan-Western China oil pipeline*. A decision was made to begin building it in mid-2004 in order to ensure the delivery of 20 million tonnes of oil to China, with the prospect of increasing this amount to 50 million tonnes. However, China accelerated implementation of the pipeline project, partly to increase its influence in CA faster, and primarily to prevent an increase in the role of Western oil and gas companies in the region's oil and gas sector.

As a result, in the spring of 2003, the *Kenkiyak-Atyrau pipeline* with a throughput capacity of the first thread of 6 million tonnes a year with the possibility of increasing it to 12 million tonnes went into operation in the west of Kazakhstan, becoming the first joint Kazakh-Chinese project in oil pipeline construction. It was 448 km long and 610 mm in diameter. The oil pipeline was intended for transporting the oil produced at the Kenkiyak, Zhanazhol, Alibekmola, Kozhasai, and other fields of the Aktobe region to Atyrau for further export to the world markets via the CPC and the Atyrau-Samara oil pipelines. When operated in reverse, the oil pipeline was to be the first part of the global Western Kazakhstan-Western China oil pipeline, the memorandum on the construction of which was signed in 1997.

In May 2004, an agreement was signed on building the *Atasu (Karaganda Region)-Alashankou (China) oil pipeline*, and a joint Kazakhstan-China Pipeline company was created, the founders

of which were AO Kaztransoil and the China National Oil & Gas Exploration and Development Corporation with a share of 50% each. The framework agreement on the development of comprehensive cooperation in oil and gas signed by the two countries enforced further cooperation in hydrocarbon resource exploration, production, refining, and transportation projects.

In November 2005, construction of the Atasu-Alashankou oil pipeline was finished. It was 988 km long with a pipe diameter of 810 mm and a capacity of 10 million tonnes a year. It was linked to the Kumkol group of oil fields. The route passed from the Atasu oil-pumping station in the Karaganda Region (the center of Kazakhstan) to the Alashankou railway station (China), which is China's largest oil terminal. This was the first Kazakh oil pipeline that did not pass through Russian territory. The oil pipeline went into operation in July 2006. The Atasu-Alashankou oil pipeline was the second part of the *Kazakhstan-China* interstate oil transportation project, the idea for which was discussed as early as 1997.

In 2003-2005, Chinese companies carried out surveys on the right-hand Turkmen bank of the Amu Darya, which confirmed the high prospects of this territory.⁸ An increase in gas production was to be achieved by raising the efficiency of the existing wells (using different intensification methods), as well as by developing new fields in Central and Zaunguz Karakum, in the Amu Darya oil-and-gas basin.

China's relations with Turkmenistan reached a new level after the Turkmen president visited Beijing in April 2006. The talks ended in the signing of a contract for \$1.5 billion to develop natural gas in Turkmenistan. In keeping with the agreement on delivery of Turkmen gas to China, there were plans to build a main *Turkmenistan-China gas pipeline* with a capacity of 30 bcm of gas a year. The total length of the gas pipeline amounted to 7,000 km (there were plans to lay 188 km through Turkmenistan, 530 km through Uzbekistan, 1,300 through Kazakhstan, and more than 4,500 km through China). The fields on the right-hand bank of the Amu Darya river were to provide the gas for the pipeline under a production sharing agreement. The countries agreed to jointly engage in their exploration and development.

China created the new energy system against the background of rapid development of trade and economic relations with the region's countries. The first half of the 2000s was distinguished by an increase in China's trade volume with the CA countries. The inclusion and domination of Chinese capital in joint ventures was seen. The economic niche it carved out for itself in the regional countries, primarily in Kazakhstan and Kyrgyzstan, made it possible for Beijing to expand its presence in this region all the more confidently.

In the second half of the 2000s, China's growing interest in CA was determined by the increasing significance of hydrocarbons for the Chinese economy. China did not want the region's countries to fall under the influence or control of states that might be unfriendly toward it. Preventing the formation of any political, never mind military unions or organizations in CA opposed to China became one of the priority tasks of Chinese policy, including in the energy sphere.

Keeping in mind the growing importance of hydrocarbon resources for the Chinese economy, Beijing was faced with the task of ensuring guaranteed access to them. This was where China's interests diverged from the policy of Russia and the Western countries interested in using Central Asia's hydrocarbons to implement their own pipeline projects.

In July 2007, the president of Turkmenistan visited Beijing again. The visit ended with the signing of a production sharing agreement at the Bagtyiarlyk gas field on the right-hand bank of the Amu Darya. Here there were plans to produce 13 bcm of gas every year. Another 17 bcm of gas was to be produced at other fields. According to the forecasts, gas reserves at that field amounted to around

⁸ See: K. Syroezhkin, *Kazakhstan-Kitai; ot prigranichoi torgovli k strategicheskomu partnerstvu*, Vol. 2, Almaty, 2010, p. 117.

1.3 tcm. It was expected that, beginning on 1 January, 2009, China would export 30 bcm of Turkmen gas every year for thirty years.

In December of the same year, construction of the third, last, part of the Kazakhstan-China project began. The *Kenkiyak-Kumkol oil pipeline* was to bring West Kazakh oil to the Chinese border. The throughput capacity at the initial stage was to be 10 million tonnes with a subsequent increase to 20 million tonnes of oil a year. The project was estimated at \$1 billion.

EU pressure on Turkmenistan, which was insistently asked to join the European Nabucco pipeline project, as well attempts to turn Kazakhstan's oil flows toward Europe forced Beijing to accelerate export pipeline construction work. In August 2008, talks were held in Beijing with the Turkmen president at which a decision was made to build the pipeline by the end of 2009 with a capacity not of 30 bcm, as earlier planned, but of 40 bcm. In turn, the Turkmen president asked China to consider buying another 10 bcm of gas in addition to the 30 bcm envisaged by the interstate agreement.

As a result, in 2009, China essentially completed formation of the pipeline infrastructure that linked its territory with the oil and gas fields in the CA countries. In July, construction of the 793-km-long *Kenkiyak-Kumkol oil pipeline* was completed, and in December the official launching of the *Turkmenistan-China gas pipeline* with a projected capacity of 40 bcm of gas took place.

The export gas pipeline from Turkmenistan and Kazakhstan to China that went into operation at the end of 2009 was not only supposed to meet the growing needs of the Chinese economy for raw hydrocarbons, but also prevent reorientation of the energy policy of Turkmenistan and Kazakhstan toward the interests of the Western countries. In turn, Ashgabad and Astana were able to make significant progress in diversifying the export routes of resources.

China's policy led to the CA countries being included in the orbit of its energy interests. Beijing turned the flows of oil and gas in the easterly direction, thus ensuring guaranteed deliveries at moderate prices. Notably, China is the largest importer of Turkmen gas. In 2014, Turkmenistan produced 76 bcm and exported 25.9 bcm to China.

In May 2010, Turkmenistan began building the *East-West gas pipeline*, which was to link its main fields in Dovletabad and South Yolotan with the Caspian coast. The project was estimated at \$2 billion and was to be implemented in five years. The capacity of the pipeline was to amount to 30 bcm a year. At the initial stage, there were plans to pump around 6 bcm of gas through it, with an increase to 30 bcm of gas a year between 2015 and 2030.

The East-West gas pipeline of more than 800 km in length and a throughput capacity of 30 bcm a year, being built in Turkmenistan, will join the large gas fields and create conditions for exporting fuel to the world markets in any direction. This Chinese megaproject might in the future link the Celestial Kingdom with the European countries. It proposes creating up to several hundred infrastructure projects: railroads, highways, energy projects, and industrial parks. Beijing is counting using this project to reinforce political contacts, create a transportation network from the Pacific Ocean to the Baltic Sea, and reduce barriers for trade and investments.

In the mid-2000s, China began showing increased interest in Kazakh gas. Relations with this state were bolstered by several bilateral documents, in which Kazakh-Chinese relations were declared a priority vector in the foreign policy of the two states.

Against the emergence of a contractual basis that promulgates the mutually advantageous nature of cooperation between the two countries, China fortified its position in the economy of Kazakhstan. Chinese policy focused its attention on transport projects. Trade and economic cooperation received a new boost. Along with it, China focused on increasing its presence in the Kazakh oil-and-gas sphere. In 2005-2010, China carried out expansion in Kazakhstan's oil-and-gas industry by greatly increasing its share in oil companies.

In March 2006, KazMunaiGaz and the China National Petroleum Company entered an agreement on the construction of a *gas pipeline from Kazakhstan to China*. The pipeline passes from the

Kazakh-Uzbek border through Shymket to Khorgos. In March 2008, the sides established the Asian Gas Pipeline joint venture for building the Kazakh-Chinese gas pipeline. The volume of investments in its construction was estimated at \$6 billion.

In July 2009, a ceremony was held to mark the completion of the first thread of the Kazakhstan-China gas pipeline. Its cost had risen to \$7.5 billion. The Kazakh part of the gas pipeline with a throughput capacity of 4.5 bcm of gas a year was put into operation in December 2009. In so doing, Kazakhstan paved the way to building new pipeline infrastructure, which made it possible for it to deliver not only oil, but also natural gas to the external market.

In recent years, China has been actively cooperating with the CA countries in the production and export of hydrocarbon resources. China receives oil from Kazakhstan, gas from Turkmenistan, Kazakhstan, and Uzbekistan, and uranium from Kazakhstan, processes gold in Kyrgyzstan and Tajikistan, and produces rare metals in Tajikistan. Most of the infrastructure projects financed by China—highways, railroads, and pipelines—lead back to China. In turn, Chinese policy regarding the formation of stable oil-and-gas routes from the region **is favored by the Central Asian states, since Beijing is viewed as a source for financing infrastructure projects that have a positive impact on the development of the regional economies.** These projects are advantageous for the Central Asian countries, particularly keeping in mind that without Chinese investments they would have no chance of being implemented.⁹

For China, the New Silk Road is an opportunity to increase its influence in CA and maintain control over its hydrocarbon potential. Beijing believes the states of the region to be serious potential suppliers of energy resources and also takes account of the importance of the region's transit opportunities. The region's boarder transportation infrastructure is being modernized for this, which is envisaged by China's strategy to revive the Great Silk Road.¹⁰

Beijing's New Initiatives

In September 2013, during his visit to Kazakhstan, PRC Chairman Xi Jinping suggested building a Great Silk Road Economic Belt and drawing the economic relations among the Eurasian countries closer.¹¹ The main topic discussed during the visit was how to further expand energy cooperation. Beijing is examining this project through the prism of its current economic development and realization of long-term interests. At that time, the heads of Turkmenistan and China signed an agreement on the construction of the fourth thread of a gas pipeline with a capacity of 25 bcm of gas a year. This thread was to pass along the Turkmenistan-Uzbekistan-Tajikistan-Kyrgyzstan-China route. The pipeline was to be finished in 2007 with an ultimate throughput capacity of Turkmenistan's pipeline system in the easterly direction of up to 80 bcm. In compliance with the agreement signed between the China National Petroleum Corporation and the Turkmen State Concern, by the end of 2021, Turkmenistan would supply China with 65 bcm of gas every year.¹² Total investments were to amount to around \$6.7 billion.¹³

⁹ See: Yu. Sigov, "Kitai bankuet po-krupnomu," *Delovaia nedelia* (Kazakhstan), 10 July, 2015.

¹⁰ See: I. Frolova, "Tsentralnaia Azia v energeticheskoi strategii KNR," in: *Tsentralnaia Azia: problemy i perspektivy (vzgliad iz Rossii i Kitaa): Collected Articles*, ed. by K. Kokarev, D. Alexandrov, and I. Frolova, RISI, Moscow, 2013, pp. 129-140.

¹¹ See: Yu. Tavrovskiy, *Kitai, Rossia i sosedi. Novoe tysyacheletie*, Vostochnaia kniga, Moscow, 2015, p. 21.

¹² See: A. Badalova, *Kitai nuzhen turkmenskiy i rossyisskiy gaz*, available at [<http://www.trend.az/business/energy/2393707.html>], 12 May, 2015.

¹³ See: N. Yuldasheva, "Slisikom bolno ne budet..." *Delovaia nedelia* (Kazakhstan), 17 October, 2014.

Then in October of the same year, PRC Chairman Xi Jinping put forward an initiative in Indonesia regarding the establishment of a 21st Century Maritime Silk Road. As a result, one New Silk Road route will pass overland from China to Europe and the Middle East, while the second will pass over the sea. Both roads are supposed to complement each other and will be subordinate to China's long-term interests aimed at gaining access to new sales markets.

China's projects to create the Silk Road Economic Belt and the Maritime Silk Road are global in nature and show the manifold increase in the financial potential of the Chinese economy. These projects are affecting dozens of countries and are aimed at increasing China's trade and economic presence in a vast area—from China's northern and western borders to Europe. As additions to the Great Oil and Gas Road, they should ultimately create further opportunities for preserving and, in the future, increasing China's geopolitical influence.

The boundaries of the Great Silk Road have not yet been precisely designated and are more like initiatives that still require clear project outlines. The Oil and Gas Road has distinct limits in area and is extremely subordinate to the needs of the Chinese economy. It is confined by the east coast of the Caspian and designed to take deliveries of resources in one direction determined by China's interests.

In less than two decades, China has been able to drastically change the pipeline architecture in CA by ensuring itself direct and reliable access to the oil and gas reserves available in these countries and creating conditions for their transportation. Just like the Silk Road Economic Belt, the new pipeline infrastructure is aimed at fortifying geopolitical positions and forming reliable sources of raw hydrocarbons. For example, in November 2014, China established a Great Silk Road Development Fund of \$40 billion. These resources were to be used to finance infrastructure and develop natural resources in the countries of Central and South Asia.

On the whole, during implementation of the New Silk Road project, China intends to launch 900 projects totaling over \$890 billion in 60 countries. The matter primarily concerns building transport infrastructure that will help to rapidly link Asia with Europe.¹⁴

Conclusion

Successful implementation of China's initiatives to establish the Oil and Gas Road is promoted by its geographical proximity to the CA countries and their interest in expanding international contacts and implementing large infrastructure, primarily pipeline, projects. It is also promoted by this project's vast historical heritage, which is a powerful tool for advancing Beijing's interests. The foreign policy course of the Central Asian countries is making it easier for China to carry out this task. These countries see China's initiatives as a way to reduce their dependence on Russia. The countries of the region are also interested in the further development of transportation infrastructure, which is strengthening their position.¹⁵

In the last decade, China has been consistently augmenting its share in the energy sector of the CA countries. This is the result of China's geopolitical strivings and the ongoing need of its economy for additional raw hydrocarbons. China is expanding its sphere of influence in the CA states and the Caspian countries by pursuing not only commercial, but also geopolitical goals and trying to prevent Astana and Ashgabad from focusing their foreign policy on the West, as well as limit the influence of Western oil companies. Beijing is keeping tabs on the regional countries' dialog with the West, which intends to use the pipeline projects not only to draw the Central Asian and Caspian countries

¹⁴ See: I. Lis, "Draiver vzaimnogo rosta," *Delovoi Kazakhstan*, 5 June, 2015, p. 1, 2.

¹⁵ See: N. Abzhekenova, "Stary novy put," *Megapolis* (Kazakhstan), 17 November, 2014.

out of Russia's sphere of influence, but also to limit the Chinese factor. In turn, the Chinese vector remains a priority for Turkmenistan and Kazakhstan with respect to hydrocarbon deliveries.¹⁶

China's long-term policy is aimed at intensifying Kazakh-Chinese and Turkmen-Chinese relations in the development of raw hydrocarbons. For this reason, despite its relatively strong position in the region, China is continuing to build close relations with CA.¹⁷

A distinguishing feature of China's policy toward all the CA countries is issuing loans used to finance Chinese import. This means that China is funding the increase in its own economic presence in CA. This way of conquering the regional markets improves China's image, since it is acting as a financial sponsor. On the other hand, it makes them more dependent on China.

China is trying to take advantage of the historical heritage of the Great Silk Road in its policy. The initiatives China is advancing to create an Economic Belt, a Maritime Silk Road, and form new pipeline architecture in CA are all in its global and regional interests. The PRC is consistently building up its economic potential and increasing its geopolitical influence.

¹⁶ See: S. Zhiltsov, I. Zonn, *Kaspyskaia truboprovodnaia geopolitika: sostoianie i realizatsiia*, Vostok-Zapad, Moscow, 2011, 320 pp.

¹⁷ See: A. Muminov, "Kitai stanet Shelkovym dlia Evrazii," *Kursiv* (Kazakhstan), 14 May, 2015, p. 1.