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A Chinese tour de force in Central Asia

Aleksandra Jarosiewicz, Chińskie tour de force w Azji Centralnej

The President of China, Xi Jinping, toured Central Asia between 3-13 September, visiting Turkmenistan, Kazakhstan, Uzbekistan and finally Kyrgyzstan, where he took part in the Shanghai Cooperation Organisation summit. It was the first visit by the new president of the People's Republic of China (PRC) to the region, and served as an unprecedented demonstration of China's position. The visit was also part of the process of strengthening that position further. During the tour, a series of economic agreements was signed with each of the countries in the region, and China presented its strategy for Central Asia (principally in a policy speech given in Astana on 7 September).

Xi's visit is a prelude to the closer integration of the region in the fields of infrastructure, trade & finance and energy. The rapid development of economic cooperation and China's *de facto* sponsorship of Central Asia's weaker states (which have been unable to attract foreign investment, and have been surviving only with international assistance) is inevitably leading to a situation where the Central Asian states are, to varying degrees, falling into political dependence on China, which in some cases is even taking on a neo-colonial character. In the strategic dimension, the PRC is avoiding direct competition with Russia, although it is gaining a political advantage in the region with the help of its economic instruments.

The economic dimension

The list of investments announced and agreements signed with the Central Asian states is impressive; their implementation will at least double the current, already high level of Chinese involvement in the region. Existing Chinese investments in Turkmenistan, Kazakhstan and Uzbekistan have been estimated by the parties at around US$30 billion, while the value (as revealed so far) of the contracts signed amounts to US$51 billion. The agreements mainly concern the fields of infrastructure (such as the construction of a strategic railway tunnel in Uzbekistan, to cost US$455 million), energy (the new D pipeline from Turkmenistan to China, and the purchase of a stake in Kazakhstan's giant Kashagan oil deposit) and – what is a new development – the area of modern technology, specifically credit agreements worth US$8 billion for Baitarek, the newly created state institution in Kazakhstan which will be responsible for modernising the economy.

In addition to the economic agreements, Xi unveiled China's new strategy for the region, which has been referred to as the Economic Corridor of the Great Silk Road. Its main objective is the development of economic cooperation by constructing transport infrastructure, increasing trade, and removing barriers to trade and strengthening the role of

national currencies in mutual trading. Xi Jinping also suggested the possibility of creating a free trade zone among the countries of the region. These economic proposals were supplemented by initiatives on the development of cultural and social relations (for example, scholarships for 30,000 students from the Shanghai Cooperation Organisation states), which Beijing hopes will weaken anti-Chinese sentiments in the region.

China gathers up Central Asian gas, and slowly reverses the directions of oil export

The visit also concluded new energy contracts, which will seal Chinese hegemony in the region's gas sector, and also pose a threat to Western plans to import crude oil from Kazakhstan. The agreement to build the new D pipeline (with an annual capacity of 30 bcm of gas) from Turkmenistan through Uzbekistan, Tajikistan and Kyrgyzstan to China, the contract for 25 bcm of gas from Turkmenistan annually, and finally the agreement for China to initiate and finance the second phase of the Galkynysh gas field (the world's second largest), will seal Chinese dominance of the Central Asian gas sector. China's obtaining *de facto* control over Galkynysh means an end to plans for a significant diversification of gas exports from Turkmenistan (by the trans-Caspian and trans-Afghan projects). These agreements have finalised the process whereby China has replaced Russia as Turkmenistan's patron and main sponsor. Moreover, the construction of the D pipeline via Kyrgyzstan and Tajikistan means that China is effectively working to integrate the region through its own energy projects.

In the case of oil, China's takeover of an 8.33% stake in Kashagan, Kazakhstan's largest oil deposit, is a turning point in the hitherto cautious cooperation between the two nations; until now, China had purchased assets in deposits with depleting production. Buying a share in Kashagan increases the chances that oil exports from Kazakhstan to China will rise from the current share(which stood at 15% in 2012), and in practice hinders Western plans to receive supplies westward via the Caucasus. In geopolitical terms, by buying Kashagan China has won the competition with India for energy resources in the region (India's ONGC had tried unsuccessfully to acquire the stake in Kashagan).

China and Russia

Through its economic initiatives, China has been avoiding open political confrontation with Russia, which does not have or does not want to use tools that could effectively curb Chinese expansion. At the same time, however, China does not question the political primacy of Russia in the region. This was clear during the summit of the Shanghai Cooperation Organisation (SCO), which in line with Russia's assumptions focused mainly on international issues (the Syrian conflict) and security (the stability of Afghanistan), while ignoring the regional problems which the organisation was created to solve. Thus the SCO is becoming a forum, symbolically dominated by Russia, for coordinating the members' positions on global issues. At the same time, however, the SCO's importance as an organisation which actually influences the situation in the region is decreasing. The reasons for this include the fact that those issues which are of key importance for China are resolved bilaterally, and the Russia-dominated SCO is not needed as an intermediary between the Central Asian states and China. The organisation's importance is also undermined by Russia's willingness to control security issues in the region by means of the other political

structures which it dominates, such as the CSTO.

Nevertheless, China's economic proposals do in fact affect Russian interests in the region, including the key integration projects espoused by Moscow (the Customs Union and the Eurasian Union). China's strategy and the agreements it has concluded demonstrate that the Customs Union does not constitute a major impediment to the development of economic cooperation between China and the region (as shown by the US$30 billion of contracts just concluded with Kazakhstan, a member of the Customs Union). What is more, the model of cooperation as put forward by China is limited to economic issues (Xi has repeatedly stressed the principle of China's non-interference in its partners' internal affairs), and is not based on any political integration; this is the ideal approach for the Central Asian states, which are concerned at the political dimension of the Russian-based integration projects.

The Chinese strategy towards Central Asia

President Xi's Central Asian tour was a demonstration of the status China has already achieved throughout Central Asia. The trip also served to present China's strategy at the level of the entire region, and not just for individual countries. In practice, China has confirmed the validity of its previous terms in its relations with the Central Asian countries, and has declared that economic cooperation between them will be stronger and more intense. The aim of this strategy is to transform Central Asia into a transmission belt for Chinese exports to the West and the Middle East; this is an attractive offer for the countries in the region, as is proved by their competition for the transport routes to pass across their territories. Ultimately, the development of infrastructure will create closer links between Central Asia and its eastern neighbour; China has also shown that it has a positive economic offer which can meet the needs of the region, based on building up ties – and not on creating barriers, as the Customs Union promoted by Russia does. .

Economic cooperation is also part of China's plans for strengthening the Central Asian states, and thus reducing the potential for their internal destabilisation. However, China has not yet publicised any new ideas it might have for raising the security level in the region after the coalition forces withdraw from Afghanistan in 2014.

With regard to energy, China has been *de facto* transforming the region into its own resource base, as it has already done in the case of Turkmenistan, the largest gas exporter in the region. Stronger economic and energy ties between China and the states in the region will support its eastward development and undermine the US' plans for oil exports from Central Asia to Europe. Due to China's dominance in this field, energy issues have not been identified as a major area of cooperation in Chinese strategy towards the region.

In strategic terms, the region's dynamic and large-scale economic cooperation with China raises the risk of those states being annexed into the Chinese sphere of influence, and could give Beijing an important tool to wield political influence in the region. This strikes at Russia's strategic interest, namely keeping the region within its own exclusive sphere of influence. The best illustration of this process is Turkmenistan, which by expanding its gas infrastructure and taking advantage of Chinese loans has, in practice, become China's client, also in the political dimension.

Appendix

The most important contracts signed during the President of China's Central Asian visit

The total value of the agreements and memoranda on investments and loans concluded between the countries of Central Asia and China was estimated by the parties at US$30 billion (Kazakhstan), US$15 billion (Uzbekistan) and US$3 billion (Kyrgyzstan). Moreover, China has signed a number of key energy agreements with Turkmenistan, the value of which has not however been given. Also, not all the agreements have been reported by the media.

The main agreements are as follows:

- an agreement to build a gas pipeline (the D pipeline) from Turkmenistan via Uzbekistan, Tajikistan and Kyrgyzstan to China. The value of the project has not been specified; the Kyrgyz section is expected to cost US$1.3 billion, the Uzbek section US$2.2 billion, and the Tajik section US$3 billion. This project will be financed by China;

- an agreement on China's financing and development of the Galkinish reserves; the value of the contract has not been specified, but the first phase of development will cost US$9.7 billion;

- a contract for 25 bcm of gas from Turkmenistan, which means that the total amount of gas contracted from that country to China will reach 65 bcm;

- an agreement on the acquisition of an 8.33% stake in Kashagan, Kazakhstan's largest oil deposit (production there started on 11 September). The value of the contract is US$5 billion. In addition, China has agreed to cover part of the costs (up to US$3 billion) which the Kazakh company KazMunaiGaz will bear for the second phase of development;

- a contract to build a refinery and petrochemical complex in Kazakhstan (details not disclosed);

- an agreement granting Kazakhstan access to the Chinese port of Lianyungang;

- two lines of credit totalling US$8 billion for Baitarek, a new institution established this spring and tasked with modernising the economy of Kazakhstan;

- a contract to build a railway tunnel in the Uzbek part of the Fergana Valley, worth US$455 million. This tunnel will be an integral part of the Chinese project to build a railway line from Kashgar through Kyrgyzstan to Uzbekistan;

- an agreement for the Chinese CNPC to join the UzIndoramaGasChemical consortium, which is building a gas-chemical complex in Uzbekistan worth US$2.5 billion.

In addition to these agreements, China and the countries in the region have concluded a number of agreements on smaller investments, such as the construction of a glass factory in Kazakhstan (US$165 million); the construction of power plants and highways in Kyrgyzstan (each project valued at US$400 million); the construction of the Navoiazot chemical complex in Uzbekistan (US$470 million); and a loan of US$175 million to modernise the Angrenska power plants in Uzbekistan. As is usual, the projects will be

implemented by Chinese contractors, and financed by Chinese loans.

China has also expressed its willingness to invest in the construction of a civil air hub at Manas airport in Kyrgyzstan, which is currently used by the ISAF mission in Afghanistan.

Map
Existing and planned gas pipelines in Central Asia

