

# Passive Eagle, Rising Dragon

## U.S. POLICY TOWARD CHINA'S RISE IN CENTRAL ASIA

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China's rise as a regional power in Central Asia is nothing short of remarkable. Over the course of a decade, China has concluded border agreements with all of the Central Asian states, secured their cooperation in combating Uighur groups in Xinjiang, surpassed Russia as the region's leading trade partner, concluded a number of energy agreements and built supporting pipelines eastward, and established new soft power instruments. It did all this while couching most of its activities in the multilateral framework of a new-style regional organization—the Shanghai Cooperation Organization (which includes China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan)—that, unlike its Western counterparts, officially does not infringe on the sovereignty of its member states.

Yet, Western analysis of China's rise in Central Asia has remained strangely muted. On the one hand, some commentators have denied that Chinese activities even constitute "soft power" or significant regional influence, pointing to the region's traditional ties with Russia and the distrust of Central Asian publics about China's regional ambitions. On the other hand, U.S. policy generally remains guided by the post-Soviet framework of the 1990s, adhering to the principles of strengthening the "sovereignty and independence" of the Central Asian states, a slogan connoting reducing the region's dependence on Russia. From this perspective, U.S. policymakers have mostly welcomed China's challenge to traditional Russian influence in the region, despite the public image of a regional Russia-China "strategic partnership."

However, as this memo contends, China's rise is not uniformly positive for either Central Asia or for U.S. interests and values across the region. Indeed, the emergence of a U.S.-Russia-China strategic triangle in Central Asia has ushered in a multipolar system of external influence, in which strategies are more contextual and partnerships more

pragmatic than we are accustomed to thinking about. In support of this claim, this memo unpacks China's rise in two areas traditionally supported by Western policy: the energy sector and as an emerging external donor. In both cases, Chinese engagement brings significant benefits to the region, but its actions also have unintended consequences that can even undermine U.S. goals.

### **Case One: China's Foray into Central Asian Energy**

As has been well documented, upon gaining their independence Central Asian energy producers—Turkmenistan, Kazakhstan, and Uzbekistan—inherited large deposits of oil and natural gas but lacked the means to develop and transport these commodities to the world market. The problem was particularly acute in the gas sector, which (unlike oil) relies almost exclusively on fixed infrastructure for point-to-point delivery. Russia retained control over the old Soviet-era pipeline network designed to export Central Asian gas to Russia and then onto Europe, affording Russian giant Gazprom near-monopoly power in its negotiations with Central Asian states over supply contracts.

In 2009, the opening of the China-Central Asia pipeline shattered Gazprom's monopoly over Central Asian gas. The pipeline, constructed in just three years (2006-2009), originates in the gas fields of eastern Turkmenistan, crossing through Uzbekistan and Kazakhstan before reaching China where it connects to the domestic east-west pipeline. An additional spur will also bring Kazakh gas into the pipeline. Originally contracted for 30 billion cubic meters (bcm) annually, the pipeline now boasts two parallel lines with a third currently under construction that will boost the pipeline's capacity to 65 bcm a year. Legally, the pipeline is operated as three distinct joint ventures between China and each Central Asian government or state agency. In effect, this governance structure makes China the exclusive arbitrator of any future disputes about the pipeline's operations and supply among the Central Asian states. China's new gas pipeline has been accompanied by the completion of an oil pipeline that traverses the length of Kazakhstan, bringing oil from fields in the Caspian all the way east. The opening of these new major pipelines has also coincided with new energy-for-loans deals that China concluded with Turkmenistan and Kazakhstan in 2009.

Officially, U.S. officials have supported these developments, viewing them as positive factors in enhancing the sovereignty of the Central Asian producers and reducing their dependency on Russia, as well as adding to global energy supply more broadly.

However, upon closer inspection, China's rise as a regional energy power also raises a number of distinct challenges for U.S. interests. First, Western companies cannot match the extent of access and influence that their Chinese counterparts have secured. For instance, in Turkmenistan, Chinese companies are the only ones that have been awarded production sharing agreements (PSAs), including a \$9.7 billion PSA awarded in 2009 to a consortium headed by the Chinese state oil and gas company CNPC to develop the South Yolotan, one of the region's most important gas fields. While this agreement was officially distinct from the April 2009 energy-for-loans agreement, it

seems reasonable to speculate that agreement made the Turkmen government more amenable to the CNPC bid.

Second, China's new supply deals with the Central Asian states may lead Beijing to actively discourage alternative gas pipelines from the area that traditionally have been supported by the West, especially ones that might threaten to erode Chinese leverage over Central Asian pricing and volume. China is currently using the low prices it pays to Central Asia as leverage in its bilateral negotiations with Gazprom over prices. Similarly, Chinese national companies would be hesitant to support a Transcaspian pipeline that would connect Turkmenistan with European customers willing to pay higher prices. Tellingly, China remains publicly quiet about its view of the U.S.-backed Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI), but it also seems doubtful that it would support the pipeline's construction if the project threatened Chinese access to supply or existing pricing agreements, or enhanced U.S. strategic cooperation at the expense of relations with Beijing.

Finally, after shedding its dependence on Moscow, Ashgabat now risks substituting dependence on Beijing as its patron. Already, Turkmenistan has accumulated \$8 billion in debt to China and promised a substantial part of its future production. As in other areas of the world in which China has concluded such energy-for-loans deals, it is unclear how Beijing will wield its financial clout.

### **Case Two: China as an Emerging Donor and Public Goods Provider**

Over the last decade, China also has emerged as a leading source of finance for regional development and infrastructure projects. Chinese assistance is not easy to categorize, as it is usually a hybrid of various flows that cut across OECD categories such as foreign aid, investment, and project finance. Within the Shanghai Cooperation Organization (SCO), Beijing has promoted the idea of financing infrastructure to connect the region with Chinese border areas and has supported the creation of a new regional development bank. In addition to the two high-profile multibillion-dollar energy-for-loans deals with Kazakhstan and Turkmenistan, Beijing has become a major funder and investor in Kyrgyzstan and Tajikistan, focusing on power generation, transmission, and new transport projects (roads and railways). Although many of these projects are routinely described as SCO in origin, they are, in fact, bilateral. Prior to the 2012 SCO summit, the Chinese Export-Import Bank was already the leading creditor to Tajikistan, holding \$900 million of debt or 40 percent of its overall foreign debt. This number will rise to 70 percent if new bilateral projects (a cement plant, coal-powered plant, mining projects, and road links) that were announced at the 2012 SCO summit are funded.

Most Western commentaries welcome this Chinese assistance and investment. After all, Central Asian infrastructure remains in a state of chronic disrepair and Chinese upgrades should contribute to regional development and the improvement of cross-border regional links. In essence, China is now the major "public goods" provider in the region, funding infrastructure and transportation projects for its own interest, yet spreading wider development benefits to the region at large.

But China's role as a donor also poses a number of challenges, rarely voiced publicly. First, on the governance side, China's lack of monitoring standards and aid conditionality, as well as its direct dealings with regimes, reduces the transparency of its projects and raises important concerns about governance. For example, following the construction of the Dushanbe-Chanak highway in Tajikistan, built mostly with Chinese funds, the road's management company, registered offshore with reported ties to the presidential family, started charging tolls for the highway's use, making it practically unaffordable for lower-income Tajiks. Second, unlike in Africa, where persistent criticism about the role of Chinese aid has led to more coordination with external donors, in Central Asia China does not coordinate with Western or other international donors in Bishkek and Dushanbe. Third, the sheer scale of China's lending and assistance dwarfs existing commitments from other international sources. Following the 2012 SCO summit, China announced, once again, that it would provide \$10 billion worth of financing for infrastructure projects in the region. If enacted, the program, originally proposed in 2009 but tabled because of behind-the-scenes Russian objections and obstruction, will make China the region's clear major financier and investor.

Ultimately, when assessing the political impact of Chinese assistance, the United States and Western donors must be mindful of the "Angola scenario." In 2006, Angolan authorities spurred a loan offer from the IMF, after which China swooped in with a package providing financing in exchange for a stake in Angola's oil industry. So while Chinese aid and assistance may play a role in developing Central Asia's creaking infrastructure, it could do so both at the expense of exacerbating local governance problems and displacing international economic organizations traditionally influenced by the West.

### **Conclusions: Central Asia's Multipolar Politics and Embracing the Triangle**

Western and Russian observers often downplay China's remarkable rise as a Central Asian regional power. Undoubtedly, Beijing's own low-key style, which utilizes buzzwords like "win-win" and "good neighborliness," while publicly deferring to Russian regional primacy, also has served to deflect greater international scrutiny. But beyond the rhetoric of Russian-Chinese strategic partnership, Beijing is accelerating its regional role, whether as a trading partner, energy investor, or foreign assistance provider. Moreover, recent announcements that China will provide scholarships and training for 30,000 Central Asian government officials and experts, 10,000 new scholarships for students, and training for 1,500 new Confucius Center teachers challenges the pretense that Beijing's interest in the region over the long-term remains purely economic. U.S. and Western policy must adjust accordingly.

In addition, rising strategic competition between Washington and Beijing over East Asia will almost inevitably spill over into other arenas, one of which might be Central Asia. So while it is premature to declare U.S.-China relations in Central Asia as "competitive," it also makes little sense for policymakers to rigidly adhere to the "anyone but Russia" axiom to frame U.S. strategic engagement within the region. Instead, officials should learn to embrace triangular Russia-China-U.S. dynamics in the

region, nimbly pivoting between pragmatic strategic partnership and cooperation with Moscow or Beijing, depending on the issue.

More broadly, China's rise in Central Asia—and the West's muted response—highlights the need to develop a more coherent strategy towards Chinese soft power in so-called “third regions.” Across Africa, Latin America, the Middle East, and Central Asia, the issue of China's adherence to international rules and standards may well become the most effective tool available to confront China's rising stock and distinct brand of influence.

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