

China as an Emerging Superpower in Central Asia: The View from Ashkhabad

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ABSTRACT

With the Soviet Union's collapse in 1991, Russia gradually lost its position as the dominant foreign power in Central Asia. The United States, Europe, and the Muslim World, among others, started to assert their influence over the post-Soviet states in this region. Since the late 1990s, China has been increasingly active there as well, mainly in search for energy resources to sustain its rapid economic growth. This article provides an overview of the Sino-Turkmen relations after 1991. In particular, the latest developments concerning the Turkmenistan-China gas pipeline project are discussed, which in the summer of 2007 entered the final stage of implementation. The authors conclude by arguing that it is the quest for Turkmenistan's natural gas that is becoming the focal point of the newly emerging geopolitics of Central Asia.

Keywords • Turkmenistan • China • External Relations • Oil and Gas Pipelines

Introduction

Following the fall of the Soviet Union in 1991, Moscow gradually lost its position as the predominant power in Central Asia. New factors, such as Islam, Euroatlanticism and a growing Chinese power, emerged, starting to challenge Russia's influence. Initially, the Islamic states of the Middle East (with the exception of Iran and Turkey whose activities were rather driven by ideological and economic motives) focused primarily on the spiritual revival of Central Asia. The policy of the United States, in contrast, mainly derived from geopolitical motives. The "containment" of Russia and, since 9/11, achieving a strategic presence to fight the War on Terror have been the foremost US concerns. The European Union's interests revolved primarily around ensuring security of supply by

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obtaining access to energy resources in Central Asia and around promoting democratic values in the region. Pursuing these two goals have in practice, however, proved problematic considering the increasingly authoritarian nature of the regimes throughout the region. The geographical distance has also constrained Europe's and the US's ability to exert influence over the post-Soviet states in this region.

The Chinese factor surfaced in post-Soviet Central Asia both in the form of a vast inflow of Chinese goods and, to some extent, also through Chinese labor migrants. From the early 1990s, the nascent transitional Central Asian markets were afflicted by economic downturns caused by the collapse of the Soviet system. Low-cost Chinese consumer goods were often the only affordable products for the impoverished population. The increasing strength of the Chinese economy brought about an interest in reaching new markets, particularly in the energy sector. This led to the subsequent construction of an oil pipeline from Kazakhstan to China. However, the Central Asian states continue to have a rather reserved stance towards China, which can be traced both to an insufficient understanding of the Chinese motives and from the long memory of Chinese invasions.

Against this background, Sino-Turkmen relations have specific features. First, Turkmenistan and China are geographically quite distant. The absence of a common border diminishes the perception of China as a direct security threat to Turkmenistan, unlike in Kazakhstan or Kyrgyzstan where strong anti-Chinese resentments exist fueled by the historical narratives within national ideology. Turkmenistan's foreign policy under the late president Saparmurat Turkmenbashi was moreover for a relatively long period led in a considerably autarchic manner, isolated from the rest of the world. The only exception to this isolationist policy was the energy sector and exports of Turkmenistan's vast reserves of natural gas and, to a lesser extent, oil. China is seeking energy supplies to sustain its rapid economic growth, while Turkmenistan is looking for reliable alternative demand-markets. Naturally, there is complementarity in their bilateral relationship but cooperation did not intensify until Turkmenbashi's death.

Sino-Turkmen Relations after 1991

Contemporary Turkmen historiography emphasizes an allegedly rich and glorious tradition of relations between the ancient China and the area of today's Turkmenistan, which was already inhabited by Turkmens at that time, according to official Turkmen sources.¹ These historical narratives accentuate the supposedly peaceful character of mutual relations between

¹ Saparmurat Turkmenbashi, *Rukhnama* [Ruhnama] (Ashkhabad: Turkmenskaia Gosudarstvennaia izdatel'skaia sluzhba, 2005), p. 212.

Asia's two greatest civilizations, Turkmen and Chinese, which were reportedly even strengthened by tight dynastic alliances. Throughout centuries, both nations maintained contacts through the Great Silk Road, which in the ancient times served as the transcontinental arterial road for trade in which the Turkmen, according to the late Turkmenbashi, actively participated.² The Great Silk Road functioned as a channel for exchange of knowledge and know-how in the fields of arts, warfare or agriculture to the benefit of all sides involved. For instance, the Turkmen historiography claims that Buddhism arrived to China from Turkmenistan through the Parthian Empire.³ In general, Turkmenistan's ideologues like to refer to Chinese sources to situate the Turkmen ethnogenesis into the most ancient era possible.

The modern relationship between Turkmenistan and China dates back to the immediate post-independence period. China was among the first great powers to officially acknowledge the newly independent states of Central Asia; it did so already in late 1991.⁴ In the first week of 1992, both states established full diplomatic relations,⁵ which were manifested soon after by the opening of the Chinese embassy in Ashkhabad. One of the first official journeys abroad undertaken by president Turkmenbashi was a visit to China from November 19 to November 23, 1992. During the visit, the foundations of bilateral relations in the political, economic and humanitarian fields were laid down. Nine documents were signed, among them a communiqué that stipulated the main principles of friendly relations and cooperation.⁶ The visit had an openly acquainting character. Turkmenistan's primary interest was to get to know the course of the ongoing economic reforms in China, including the performance of the free economic zones on China's eastern coast.⁷ The official visit of Li Peng, the premier of the State Council of the People's Republic of China,

² Vystuplenie Prezidenta Turkmenistana Saparmurata Turkmenbashi v Kitaiskom narodnom universitete [Speech of the president of Turkmenistan Saparmurat Turkmenbashi at the Chinese People's University], *Neitral'nyi Turkmenistan*, September 5, 1998.

³ See particularly Ovez Gundogdyev, "‘Nam est' chto vspomnit' iz obshchei istorii...’ Turkmeno-kitaiskie svyazi: vzgliad skvoz' tysiacheletia [‘We share common history...’ Turkmen-Chinese links: a look through millennia],” *Mezhdunarodnyi zhurnal Turkmenistan*, 2006, No. 4 (13), pp. 16-25.

⁴ For the text of the corresponding note of the minister of foreign affairs of the People's Republic of China Qian Qichen to the minister of foreign affairs of Turkmenistan Avdy Kuliiev, dated December 27, 1991, see *Turkmenskaia iskra*, December 30, 1991.

⁵ For excerpts from the joint communiqué on the establishment of diplomatic relations between the People's Republic of China and Turkmenistan, see *Turkmenskaia iskra*, January 8, 1992.

⁶ Sovmestnoe kommiunike mezhdu Turkmenistanom i Kitaiskoi Narodnoi Respublikoi [Joint communiqué between the People's Republic of China and Turkmenistan], *Turkmenskaia iskra*, November 25, 1992.

⁷ *Turkmenskaia iskra*, November 25, 1992.

to Ashkhabad during spring 1994 as part of his first Central Asian tour could be interpreted as a follow-up to the Beijing summit. Turkmenistan used this opportunity to present the project of a transport and communication corridor within the concept of the “renewed Great Silk Road.”⁸ Following these talks, Turkmenistan’s embassy was opened in Beijing in the mid-1990s in order to create a firm institutional framework for the bilateral relations.

The agreements reached during the first half of the 1990s formed a basis for expanding activities of Chinese enterprises in Turkmenistan. However, the first significant enhancement of the Sino-Turkmen relations occurred only in the second half of the 1990s. In this regard, the next official visit of president Turkmenbashi to Beijing from August 30 to September 4, 1998, proved to be of particular importance. The “Head of the Turkmens” obtained an honorary doctorate at the Chinese People’s University. This award created a hospitable atmosphere for the ongoing negotiations on joint economic projects. An agreement establishing an intergovernmental commission for trade and economic cooperation was signed, providing an appropriate framework for consultations mainly in the field of oil and gas industry. From Beijing’s point of view, this was an effective instrument to promote Chinese interests with Ashkhabad. Furthermore, an umbrella agreement was initialed, under which China pledged in principle to provide a preferential state loan to Turkmenistan for implementing the joint investment activities in the areas of primary interest.⁹ It is also worth mentioning that in accordance with the joint declaration signed by the presidents, Turkmenistan, while adhering to permanent neutrality, took an unprecedented obligation to coordinate its international actions, including those within the UN, with China.¹⁰

Judged by the achieved results, the most successful initiative of Turkmenistan’s foreign policy towards China might be the spectacular visit of China’s president Jiang Zemin to Ashkhabad from July 5 to July 7, 2000. This was the first visit of China’s head of state to Turkmenistan in history, giving the whole event a special significance. The two leaders signed a joint declaration in which they expressed the proximity of views on various issues. They specifically underscored the right of every state to choose its own mode of protecting human rights based on national conditions. Additionally, both parties reiterated their commitment to combat the “three evils” (ethnic separatism, terrorism, and religious

⁸ *Turkmenskaia iskra*, April 23, 1994.

⁹ *Neitral'nyi Turkmenistan*, September 5, 1998.

¹⁰ *Sovmestnaia deklaratsiia mezhdru Turkmenistanom i Kitaiskoi Narodnoi Respublikoi o dal'neishem razvitii i ukreplenii otnoshenii druzhby i sotrudnichestva* [Joint statement on further developing and strengthening friendly relations and cooperation between the People’s Republic of China and Turkmenistan], *Neitral'nyi Turkmenistan*, September 5, 1998.

fundamentalism), which in the Chinese context means Turkmenistan's support to Beijing's policy towards the Uighurs in the Xinjiang Uighur Autonomous Region. Turkmenistan, once again, reaffirmed its adherence to the "One China principle" by promising to counter attempts to include Taiwan into international structures.¹¹

The events of September 11, 2001, and the subsequent US-led military intervention in Afghanistan did not affect the Sino-Turkmen relations much. The fact that both Turkmenistan and China share a state border with Afghanistan resulted in their participation in the "6+2 Group" of Afghanistan's neighbors and friends. However, China and Turkmenistan had a different approach when it came down to the very settlement of the Afghan conflict. Turkmenbashi, while ostentatiously refusing to differentiate between "bad Afghans" and "good Afghans," had long maintained cordial relations with the Taliban movement.¹² China, on the contrary, sponsored the UN Security Council resolution imposing sanctions on the ruling Taliban regime. This was primarily due to the presumed ties between Taliban and the radical Islamist fighters leading a "liberation struggle" in China's Xinjiang province.

In this way, the first decade of the Sino-Turkmen relations was characterized by a crystallization of the main directions of cooperation, which resulted in the foundation of a solid legal basis. Absence of ideological differences between the political elites was an important factor contributing to this development. Both countries also share common perspectives on a number of domestic affairs issues, such as the necessity of stability of political development based on strong leadership. Besides, there is a corresponding view on key international issues, for example, the vision of a multipolar world order, strengthening of the UN's role in the international system or the unconditional superiority of state sovereignty with an obviously anti-hegemonic message. The harmonious relation at the elite level facilitated the gradual shift from the solely political questions to concrete investment projects. These projects relate primarily to the energy sector but also to transport, communication, and textile.

Close interaction in the oil and gas industry is thus the main area of Sino-Turkmen economic relations. Since 2000, the China National Petroleum Corporation (CNPC) has been conducting prospecting and

¹¹ Sovmestnaia Deklaratsiia mezhdu Turkmenistanom i Kitaiskoi Narodnoi Respublikoi [Joint statement between the People's Republic of China and Turkmenistan], *Neitral'nyi Turkmenistan*, July 7, 2000.

¹² See particularly Turkmenbashi's address for the 2000 UN Millenium Summit "Turkmeny, Turkmenistan, mir: tysiacheletiia i XXI vek, sviaz' vremen i tsivilizatsii [The Turkmens, Turkmenistan and the world: millennia and the twenty-first century, the bond of time and civilizations]," *Neitral'nyi Turkmenistan*, August 18, 2000. Here one must not forget that the last round table negotiations between the main conflicting Afghan parties in 2000 were held on the "neutral lands" of Ashkhabad.

exploration as well as servicing and maintenance on the Kumdag oil field in western Turkmenistan. Moreover, the Chinese have been invited to develop prospective oil and gas blocks in the Caspian Sea. China's engagement in Turkmenistan also includes massive deliveries of drilling rigs and lifting devices for the national oil and gas companies 'Turkmenneft' and Turkmengaz. Overall, China has delivered machinery to Turkmenistan for major workover of more than a thousand oil wells as of 2005.¹³ In addition, China Petroleum and Chemical Corporation (Sinopec) has conducted several drillings throughout Turkmenistan, including one at the oldest Shatlyk gas field on the right bank of the Amu Darya river.¹⁴ In total, China's share in the form of goods- and services-related deliveries for Turkmenistan's oil and gas industry was reported to have reached US\$293 million as of 2003.¹⁵ The cooperation in the oil and gas industry still continues, thus underlining Beijing's ambitions in this strategic sector of Turkmenistan's economy.

Secondly, owing to the Chinese investments, new perspectives of long-term cooperation have opened in the fields of transport and communications since 2004. In transport, the main contract was signed between Turkmenistan's railways and the Capital-Longji-Sci-Tech Co. concerning the renewal of railway stock to the total amount of US\$128 million financed through Chinese credits. The first delivery of Chinese locomotives and wagons designed for operating Turkmenistan's main national railway lines arrived to Ashkhabad in the summer of 2005.¹⁶ However, the implementation of modern technology in Turkmenistan is a problem. Besides, in 2005 Turkmenistan concluded a long-term contract with China's Huawei Technologies to modernize the national telecommunication networks, including a delivery of digital telephone switches to a total value of RMB100 million (US\$14 million).¹⁷ Further activities include the development of the national mobile phone network TM-Cell (Altyn Asyr), one of Turkmenistan's two GSM operators, construction of CDMA radio system, and the planned laying of optical cables along the main national communication corridors.¹⁸

Thirdly, Sino-Turkmen economic cooperation focuses on the textile industry. This particularly concerns the specific sectors of sericulture (silk farming) where both China and Turkmenistan claim to have a thousand-year-old tradition. From Ashkhabad's point of view, Beijing acts as the principal supplier of machinery device and technologies for the ongoing modernization of Turkmenistan's textile industry base. For its

¹³ *Neitral'nyi Turkmenistan*, July 22, 2005.

¹⁴ *Neitral'nyi Turkmenistan*, July 8, 2000.

¹⁵ *Neitral'nyi Turkmenistan*, December 23, 2003.

¹⁶ *Neitral'nyi Turkmenistan*, August 10, 2005.

¹⁷ *Neitral'nyi Turkmenistan*, March 1, 2005.

¹⁸ *Neitral'nyi Turkmenistan*, September 25, 2006.

part, Beijing imports the silk cocoons as well as raw cotton and cotton production. Owing to preferential state loans, between 2002 and 2004 China provided new facilities for Ashkhabad's silk production factory and reconstructed the textile factory in the city of Mary and a silk production unit in the Turkmenabat city.¹⁹ In 2005, China received a contract to build a new plant for velvet and silk thread production in the Rukhabat district near the Ashkhabad capital.²⁰

To sum up, Sino-Turkmen economic cooperation has developed in several areas which are often visible to the public (for example, in the deliveries of new train wagons). However, even according to unreliable Turkmen national statistics, China still belongs to Turkmenistan's minor trade partners, lagging far behind Russia, Turkey or Iran.²¹ Correspondingly, from the perspective of the gigantic volumes of China's foreign trade, the exchange with Turkmenistan comprises a marginal fraction only. Nevertheless, with the proposed Turkmenistan-China pipeline completed, this situation could change soon.²² Chinese investments enjoy support from the Chinese political leadership, which in the case of doing business with Turkmenistan serves as a true comparative advantage. Similarly the Chinese entrepreneurs are able to operate well in the Turkmen market as they have sense for the nuances of the local etiquette.²³ Considering the constantly widening portfolio of trade and economic cooperation, for the future, the continuation of a gradual but stable growth of Chinese presence in Turkmenistan is to be expected; this is, after all, a common trend for China's relations with all the other Central Asian republics as well.

¹⁹ *Neitral'nyi Turkmenistan*, February 26, 2004.

²⁰ *Neitral'nyi Turkmenistan*, March 1, 2005.

²¹ According to the official Turkmen statistics, the trade exchange between Turkmenistan and China has reached US\$179.8 million in 2005. However, in the context of total foreign trade of Turkmenistan without counting the export of oil and gas, this is still a considerably minor percentage. Source: Authors' calculations based on the official statistics published in the Ashkhabad daily *Neitral'nyi Turkmenistan* and on the governmental website *Internet-gazeta Turkmenistan.ru*.

²² Chinese statistics report that the trade exchange with Turkmenistan in 2005 amounted to cca US\$110 million, from which export to Turkmenistan was US\$90.8 million and import from Turkmenistan was US\$19 million. Still, in the context of the gigantic volumes of foreign trade of China it makes for about 1/1000. See *China Statistical Yearbook 2006*, Chapter 18-8. Volume of Imports and Exports by Countries and Regions (Customs Statistics), available at <<http://www.stats.gov.cn/tjsj/ndsjs/2006/indexeh.htm>> (May 1, 2008).

²³ Here, it is worth mentioning that the translation of the second volume of Turkmenbashi's "Holy book" of Rukhnama into Chinese that was presented to him during his last visit to Beijing in 2006 was arranged by the telecommunication giant Huawei Technologies. See *Neitral'nyi Turkmenistan*, April 4, 2006. Moreover, the role of the Chinese embassy in Ashkhabad was instrumental to arranging the Chinese translation of both volumes of the "Holy Book."

Turkmenistan-China Pipeline

The prospect of a Turkmenistan-China gas pipeline has been the main topic of bilateral relations since 1991. The idea of linking together East and Central Asia through a pipeline was originally formulated during the first visit of Turkmenistan's president Turkmenbashi to China in late 1992.²⁴ However, back then, the subject of debate was a pipeline routed through Afghanistan and Pakistan, which would be perhaps the shortest but beyond any doubt the most problematic export option for Turkmenistan considering the security risks of using Afghanistan as a transit route. The very idea of a Central Asian gas connection to China, with a possible extension further to Japan, was first expressed during the official visit of premier Li Peng to Ashkhabad in 1994. That was when Turkmenistan signed a protocol of intent with CNPC on cooperation in the development of oil and gas industry, calling for a feasibility study to be conducted.²⁵ Yet, it seemed at that time that this project would merely be another impossible proposal from Ashkhabad. Turkmenistan's government estimated the costs to be above US\$8 billion, a rather modest estimate. Moreover, Turkmenistan's relations with its Central Asian neighbors quickly deteriorated as a result of Turkmenbashi's isolationist policy. Thus, any coordination of forces between Ashkhabad, Tashkent and Alma-Ata/Astana was difficult to imagine, regardless of the attractiveness of the project in the long-term perspective as well as the geopolitical advantages of diversifying export routes for all the participants.

Nevertheless, by the late 1990s, it was clear that the interest of Turkmenistan and China in the implementation of the project was rather serious. The first tangible result in the negotiations became evident during the aforementioned visit of president Jiang Zemin to Turkmenistan in 2000, when an agreement on mutual understanding and the main principles underlying oil and gas cooperation was signed. The agreement provided for China to launch prospecting and exploration of the deposits located on the right bank of the Amu Darya river, which were eventually to become the source for the future Turkmenistan-China gas pipeline.²⁶ This step meant a breakthrough in Turkmenistan's existing practice. China's prospecting and exploration would lead to the delimitation of a contractual territory where CNPC, as the first foreign gas company in Turkmenistan, was to gain the right to carry out onshore gas extraction activities on a production sharing agreement (PSA) basis. With this, Beijing prepared ground for the rapid growth of Chinese

²⁴ *Turkmenskaia iskra*, November 25, 1992.

²⁵ *Turkmenskaia iskra*, April 23, 1994. Subsequently, an international consortium consisting of CNPC, Exxon and Mitsubishi Corp. was authorized to conduct the feasibility study.

²⁶ *Neitral'nyi Turkmenistan*, July 7, 2000.

influence in Turkmenistan that we are witnessing today. During the visit of Jiang Zemin, the Chinese also expressed an interest in Turkmenistan's liquefied natural gas (LNG). LNG was to be produced in western Turkmenistan, including the Koturtepe field where Chinese technicians had already been contracted for oil well workover. That was when Turkmenbashi launched an ambitious program of developing this new sector of the oil and gas industry by calling for tenders for the deliveries of equipment for LNG production and for projecting, constructing and exploiting the terminals for storing LNG on Turkmenistan's borders.²⁷

The last visit of Saparmurat Turkmenbashi to China took place from April 2 to April 7, 2006. This Beijing summit marked another breakthrough in the bilateral cooperation in the oil and gas industry. The main result of the summit was the intergovernmental general agreement on building the Turkmenistan-China gas pipeline and the sale of natural gas from Turkmenistan to China. This agreement provided for natural gas to be supplied from Turkmenistan to China for a period of thirty years. The project capacity of the new route was set to 30 billion cubic meters (bcm) annually. The gas supplies were to start flowing already in 2009. To secure sufficient energy resources for the new pipeline the two parties agreed to jointly develop natural gas deposits located at the right bank of the Amu Darya river.²⁸ Given the preliminary results of prospecting and exploration in this area, we can assume that China was at the time of the signing of the general agreement sure that the launching of such a costly project would be economically feasible. In line with China's own energy strategy, Beijing also demonstrated its intent to control the entire gas production process, including the transportation routes. For this reason, China took the responsibility for negotiating the terms of transit of natural gas from Turkmenistan with the transit countries.²⁹ Throughout 2006, Beijing sent government delegations to Ashkhabad to deal with the elaboration of the concluded agreements. Not even the unexpected regime change in Turkmenistan could halt the preparation of the project.

²⁷ *Neitral'nyi Turkmenistan*, August 1, 2000.

²⁸ General'noe soglashenie mezhdru Pravitel'stvom Turkmenistana i Pravitel'stvom Kitaiskoi Narodnoi Respubliki o realizatsii proekta gazoprovoda Turkmenistan-Kitai i prodazhe prirodnogo gaza iz Turkmenistana v Kitaiskuiu Narodnoiu Respubliku [General agreement between the government of Turkmenistan and the government of the People's Republic of China on the implementation of Turkmenistan-China gas pipeline project and the sale of natural gas from Turkmenistan to the People's Republic of China], *Neitral'nyi Turkmenistan*, April 4, 2006.

²⁹ For an overview of China's energy strategy towards Central Asia, see Pan Guang, "China and Energy Security in Central Asia," *Central Asia and the Caucasus*, 6, 48 (2007), pp. 85-91.

A New Beginning under Berdymukammedov?

On December 21, 2006, the first and lifelong president of independent Turkmenistan Saparmurat Turkmenbashi deceased following a reported heart attack. A *siloviki* group headed by Kurbankuli Berdymukammedov, the vice chairman of the cabinet of ministers, took over Turkmenistan's government. The change of the head of state in the context of a strictly centralized system, together with the yet unclear foreign policy orientation of the new leadership, once again raised the international interest in Turkmenistan's vast energy resources. Of course, China could not afford to stay outside of these emerging opportunities. Nevertheless, the new Turkmen leader was careful not to make sudden changes concerning the relations with China. Taking into account the mutual benefit of the signed contracts it was in his interest to continue the course that had been set before. As a demonstration of good will, China sent a high-ranking delegation headed by a prominent member of the State Council, Tang Jiaxuan, to Ashkhabad to attend the funeral ceremony of Turkmenbashi.³⁰ With this symbolic gesture, Beijing confirmed the strategic interest in maintaining the close ties with Ashkhabad.

On July 17 and 18, 2007, Turkmenistan's new president Berdymukammedov paid an official state visit to China. In Beijing, he was received by China's president Hu Jintao. During this event, the two leaders signed a joint declaration, in which both parties reiterated their support of each other in matters of vital interest. Furthermore, Turkmenistan took another step to accommodate Chinese global ambitions by assuring not to provide its territory to third parties for activities that would harm Beijing's interests, a wording most likely directed against the US considering its military presence in neighboring countries.³¹ Nevertheless, the main attention was focused on the cooperation in the oil and gas industry. Following up on the 2006 general agreement, a production sharing agreement was signed, providing China with an equity stake in Bagtiyarlyk on the right bank of the Amu Darya river. In addition, the terms of the future gas supplies were fixed in a purchase and sale contract concluded between Turkmengaz and CNPC; the details of the deal, however, have not been made public. China also agreed to provide financial backing by granting Turkmenistan another preferential state loan to purchase Chinese drilling rigs.³²

³⁰ *Neitral'nyi Turkmenistan*, December 25, 2006.

³¹ Sovmestnaia deklaratsiia Turkmenistana i Kitaiskoi Narodnoi Respubliki o dal'neishem ukreplenii i razvitii otnoshenii družby i sotrudnichestva [Joint statement on further developing and strengthening friendly relations and cooperation between the People's Republic of China and Turkmenistan], *Neitral'nyi Turkmenistan*, July 18, 2007.

³² *Neitral'nyi Turkmenistan*, July 20, 2007.

Changes occurred in the strategic setting of Central Asian region as well. Already within the very first few months after the inauguration of president Berdymukhammedov, Turkmenistan's relations with both of its Central Asian neighbors, Kazakhstan and Uzbekistan, turned for the better. Meanwhile, Beijing's diplomatic offensive towards the transit countries was at its peak. In mid-August 2007 China's president Hu Jintao visited Bishkek to attend the annual summit of the Shanghai Cooperation Organization where Berdymukhammedov was also present as a guest. On his way home, Hu made a stop-over in Astana where he reached consensus with his Kazakh counterpart Nursultan Nazarbayev concerning the transit of Turkmenistan's gas, including the final routing of the proposed pipeline.³³ Thus, the remaining obstacles in constructing the gas pipeline between Turkmenistan and China were effectively removed.

The construction works were immediately launched, marking the beginning of the next stage of the project. On August 29, 2007, the village of Bagtiyarlyk in eastern Turkmenistan saw a high-profile ceremony when the equity stake supporting the Turkmenistan-China pipeline was officially handed over to CNPC.³⁴ Beijing used this opportunity to inform Berdymukhammedov about the results of the latest consultations with Turkmenistan's neighbors. Kazakhstan and Uzbekistan would thus be the transit countries. Of the total contracted annual capacity of 30 bcm, 13 bcm would be acquired by gas treating at the Samantepe and Altyn Asyr gas fields that are part of the contractual territory. During the second phase, the remaining 17 bcm of fuel would originate from new deposits to be jointly developed within the production sharing agreement.³⁵ The transition from the preparation phase of the project to its practical implementation was symbolically started at the ceremony when the first pipes of the new pipeline were welded.

The latest chapter in the history of the Turkmenistan-China pipeline project took place in Ashkhabad. China's premier Wen Jiabao visited Turkmenistan on November 3 and 4, 2007. The visit was yet another proof of the growing importance of Turkmenistan in the context of China's external energy strategy. President Berdymukhammedov informed his guest that Ashkhabad had already met its obligations under the pipeline deal concerning the execution of the feasibility study on Turkmenistan's territory. Today, both parties coordinate their efforts to fulfill the terms set by the general agreement on time. For its part, China rewarded Turkmenistan for its "contribution to the world's energy security" by granting additional preferential loans for the

³³ *Kazakhstanskaia pravda*, August 18, 2007.

³⁴ For the corresponding resolution of president Berdymukhammedov, see *Neitral'nyi Turkmenistan*, August 30, 2007.

³⁵ *Neitral'nyi Turkmenistan*, August 30, 2007.

implementation of joint investment projects that go far beyond the oil and gas industry, including the construction of new units and reconstruction of the fertilizer plants in the city of Mary and building a brand new glass combine in the Ashkhabad capital.³⁶

What Next?

Ever since 1991, Turkmenistan has been striving to break free from the inherited dependency on Russia. Taking into account the complementarity of the national economies of China and Turkmenistan, it is natural that China became one of the foremost options for Turkmenistan's export diversification. These joint efforts materialized in the Turkmenistan-China pipeline project that entered into the practical implementation phase during the summer of 2007. Although it will be difficult to stick to the original deadline and commission the pipeline by 2009, it seems reasonable to expect that Turkmenistan's first major export gas pipeline to world markets not controlled by Russia will flow eastwards.³⁷ The speed with which the negotiations have been held and agreements approved as well as the symbolic presence of the highest state representatives at key ceremonial events visibly demonstrate the serious interest of both Ashkhabad and Beijing in putting the pipeline into operation as soon as possible. Material and human resources, free capital for large investment projects and a good knowledge of the local business environment are Beijing's biggest assets in comparison with its main rivals in Central Asia. The ideological affinity between China and Turkmenistan is also conducive to Beijing's realization of its economic interests in the region.

From a geopolitical perspective, it is especially interesting to look at the 2006 general agreement stipulating that, should additional volumes of gas be required for filling the Turkmenistan-China pipeline, these would be provided by Turkmenistan from other deposits than those jointly developed under the PSA. The point is that technically it would not be too difficult to extend the gas pipeline by merely a few hundred kilometers from the right bank of the Amu Darya river to the largest operating gas fields in Dauletabad, southern Turkmenistan, that today serve the main Central Asia-Center gas pipeline system going to Russia. Consequently, speculations have arisen about the actual size of Turkmenistan's gas reserves available within China's contractual territory.³⁸ If Turkmenistan's reserves at the right bank of the Amu

³⁶ *Neitral'nyi Turkmenistan*, November 5, 2007.

³⁷ The Turkmenistan-Iran pipeline commissioned in late 1997 has only a local significance.

³⁸ Adding to this was that there are virtually no credible data available concerning the size of oil and gas reserves in Turkmenistan. Nevertheless, in late 2007 president Berdymukhammedov announced that he would call for a tender on carrying out an

Darya river prove to be sufficient, the Turkmenistan-China pipeline would not threaten but merely supplement the already existing export pipelines. If not, prioritizing China's interests through the abovementioned provision of the general agreement means that Russian Gazprom's long-term gas contract would be the first to lose out.

In addition, what both parties have kept secret for now is the price for the gas to be supplied. China had reportedly wanted to fix the price at US\$90 per 1000 cubic meters.³⁹ However, in light of the steadily rising prices that Russia's Gazprom has to pay for gas imports from Central Asia, this arrangement does not seem very realistic. The consolidation of Central Asian gas exporters towards Russia has in the recent months bore fruits with Gazprom consenting to pay European prices for Turkmenistan's gas from 2009 onwards.⁴⁰ In this context, it is more than probable that Turkmenistan will bargain equally hard to maximize profit when dealing with China. President Berdymukhammedov, just like his predecessor, has already made clear that he is in no way afraid to exert pressure, even to cut off supplies, just to get better prices, a move that had severe effect on the population of Northern Iran during the winter season of 2007 and 2008. The PSA mechanism applied in the deals with China, however, leaves Turkmenistan's leadership with a much more limited leverage than it has against Russia and Iran. This entails that any one-sided action from Ashkhabad in relation to Beijing would carry the risk of a serious crisis, since the respective gas fields on Turkmenistan's territory are controlled by China.

Without plotting any further negative scenarios about what could go wrong, it is more than certain that the gas-powered renewal of the Great Silk Road will significantly shift the geopolitics of natural gas in all of Eurasia. By diversifying export routes to world markets, Turkmenistan will be able to effectively choose from among its partners, irrespective of the contracts in force. Naturally, the leading criterion will be how much, or what else, each particular partner would be willing to offer to the Ashkhabad leadership. Once the Turkmenistan-China pipeline is in operation, a situation can arise whereby there simply might not be enough gas to meet the demand of all interested parties. Paradoxically, it will be again primarily Ashkhabad who is likely to benefit from this situation even if it fails to meet its export obligations, because with heavy excess demand on all markets in question, every available source will be a matter of intense international competition, thus allowing it to raise

international audit of Turkmenistan's oil and gas reserves in order to improve the investment climate in the republic. *Neitral'nyi Turkmenistan*, December 28, 2007.

³⁹ Stephen Blank, "Turkmenistan: Still an Independent Energy Player in Central Asia," *Eurasianet*, November 11, 2007.

⁴⁰ Arkadii Dubnov and Aleksei Grivach, "Sredneaziatskii front [The Central Asian battle-front]," *Vremia Novostei*, March 12, 2008.

prices. The fight for Turkmenistan's gas might thus become the focal point of the newly emerging geopolitics of Central Asia.