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Central Asia: China Opens a New Silk Road

By Loro Horta

Synopsis

In early September Chinese President Xi Jinping visited several Central Asian countries bringing billions in investment. The trip could signal the opening of a new silk road connecting the Eurasian landmass with East Asia through China – ushering in a new economic and political era.

Commentary

IN THE past decade, Central Asia has grown from a marginal position in Beijing's strategic calculus to the top of its diplomatic priorities: China is fast emerging as a vital economic and political player in this strategically located and resource rich region.

China's new focus in the region has been on cultivating good relations with the newly independent republics that bordered its restive western province of Xinjiang, home to several Turkic groups such as the Uighur, Uzbeks and Kazaks. Uighur nationalists and separatists, or "splitists" as Beijing calls them, have on occasion used the neighbouring countries to organise anti-China activity.

Concerns over energy supplies

To stabilise the region, China began to provide development aid and enhance security cooperation. As China's economic power grew, so did its demand for energy resources and the corresponding need to diversify its supplies that are critical for its economic growth. Like the United States, China has been concerned with turmoil in the Middle East and disruption of access to vital oil and gas supplies. According to the International Energy Agency (IEA) China will overtake the US as the world's largest consumer of oil by 2017.

As the crisis in Syria exacerbates China's fears of Middle East instability, Beijing is also increasingly concerned about possible disruptions in Southeast Asia. China worries that tensions or non-traditional security threats like piracy and maritime accidents could lead to disruptions in the Straits of Malacca where the bulk of Chinese energy imports must transit.

The land route option

To reduce its vulnerability to possible disruption of supplies, China has begun to look to Central Asia as an alternative source of energy. Close proximity and shared borders with the Middle Kingdom reduce transportation costs and dependence on seaborne supplies. No other region offers such convenience.

Patient and skillful diplomacy, topped with generous financial incentives, slowly opened the region up to China. In 2006 Beijing's efforts paid off when China and Kazakhstan signed a deal to build a 3000 km pipeline to transport Kazakh oil and gas to the western Chinese province of Xinjiang. Ever since China had gained a significant presence in the country's energy sector, with some experts estimating that 50 percent of the Kazakh energy sector is now owned by Chinese state-owned companies. In July the two countries signed an agreement to expand the pipeline and double production.

The expanded pipeline could also transport Russian oil to China by mid next year, linking China to one of its main oil suppliers. It is understood that Russian oil company Rosneft earlier this year negotiated a US\$35 billion loan from China. Rosneft intended to use the loan to buy off several of its rivals. In exchange the Russians would double oil supplies to China. Russia is the world's second largest oil exporter.

In 2009 China concluded the construction of the multi-billion dollar Turkmenistan-China pipeline. The 1840 km pipeline crosses neighbouring Uzbekistan and Kazakhstan and will take oil and natural gas to Xinjiang. In 2012 Turkmenistan became China's main source of natural gas providing over 50 percent of China's gas imports. Iran, the world's third largest oil producer, already has a pipeline to Turkmenistan, which could be further extended to link up with the Turkmenistan-China pipeline.

A new silk road?

On another front, China and Pakistan are in the initial stages of developing the Xinjiang Gwadar development corridor. Beijing has funded the construction of the port of Gwadar in the Pakistani province of Baluchistan at a cost of \$1.2 billion. The port is strategically located at the eastern approach of the Persian Gulf in close proximity to Iran and Saudi Arabia.

The Gwadar development corridor will see the construction of an extensive network of roads, rail links and pipelines connecting the Persian Gulf to western China, thus shortening the distance to transport supplies vital to the Chinese economy.

During Xi's September visit to the Central Asian region, a staggering array of deals worth dozens of billions of dollars were signed. With Kazakhstan, deals worth \$30 billion were inked covering energy, mining, infrastructure, science, and education. With Uzbekistan, 22 deals worth \$15 billion were signed while Kirgizstan received a \$3 billion soft loan for infrastructure. This growing investment has the potential to integrate the economies of Russia, Central Asia and China to a degree not seen since the days of the ancient silk road.

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