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The Caspian Sea: China's Silk Road Strategy Converges with Damascus

By Christina Y. Lin

The Caspian region is becoming enmeshed in a web of overlapping political, military, trade and energy interests of countries extending from Asia, to the Middle East, to Russia, to Europe. Given the rising instability of Middle East energy supplies, the Caspian basin has emerged in prominence as an alternative resource for the world's growing energy consumers. It is estimated that the Caspian Sea is home to the world's largest reservoir for oil and natural gas after the Persian Gulf and Russia [1]. Historically, Russia had a monopoly of influence in the region during the Soviet era, but after 1991 the United States began making inroads into the region to reduce Russia's influence over the newly formed independent states [2]. In recent years, both China and the European Union have stepped up their presence and have become active players in the region. Other new players albeit smaller but with increasing footprints include countries such as India, Japan and South Korea. Of the various players, China has the fastest growing presence in the region—driven by its voracious energy appetite but also enabled by the Shanghai Cooperation Organization (SCO) framework. As China embarks on its "look west" development Silk Road Strategy, Syria's "look east" policy appears to be converging with Chinese interests at the Caspian Sea. The interplay of China's growing footprint in the Caspian region via its modern Silk Road—reinforced by Syrian President Assad's nascent "Four Seas Strategy"—will have important implications for the United States, the European Union and other allies.

China's Current Footprint in the Caspian Sea Landscape

Over the past few years, China has poured investments into Central Asia and the Caspian region—especially Kazakhstan and Turkmenistan—with two main infrastructure projects: the Kazakhstan-China oil pipeline and the Turkmenistan-China gas pipeline (also known as Central Asia-China gas pipeline). Below is a brief overview of Chinese investments in the Caspian region countries.

Turkmenistan: Beijing's main economic interest is gaining access to natural gas in Turkmenistan—Central Asia's largest gas producer. It has granted loans worth $3 billion to be used to exploit South Yolotan gas reserves (estimated as the fourth largest gas reserve in world) [3]. Its largest energy infrastructure project—the Central Asia-China Gas Pipeline—linking gas fields in Turkmenistan to Xinjiang— was inaugurated in December 2009. The 1,833 km pipeline, starting near a Chinese developed gas field in eastern Turkmenistan, is expected to reach full annual capacity for $40 billion cubic meters (bcm) by 2012-13 (Reuters, March 11). Additionally, 37 enterprises with Chinese capital shares operating in Turkmenistan implemented 57 investment projects, amounting to over $4.163 billion (State News Agency of Turkmenistan, June 20). In June 2010, Turkmen President Gurbanguly Berdimuhamedov announced a $2 billion trans-Turkmen pipeline project to connect the China-Central Asia pipeline east of Turkmenistan to the country's western resources—the same reserves traditionally exploited by Russia and earmarked for the U.S./EU-backed trans-Caspian Nabucco project [4]. In August 2010, President Berdymukhamedov further sought a $4.1 billion soft loan from China State Development Bank to develop the South Yolotan gas field (Associated Press, August 13; Reuters, August 13).

Kazakhstan: Beijing has invested $16 billion into the Kazakh economy. Out of this, $8.9 billion is investment, $1 billion is low-interest loans and almost $6 billion covers the cost of acquired assets [5]. In November 2009, Chinese state-owned CNPC tied up with Kazakh state firm KazMunaiGas in a $2.6 billion deal to jointly take over Kazakh oil producer MangistauMunaiGas. Additionally, China gave Kazakhstan $10 billion in loans to finance various projects (Reuters, March 11). In October 2009, a Chinese investment company bought an 11 percent share in Kazakh oil major KazMunaiGas E&P for $939 million. KazMunaiGas E&P, the listed subsidiary of KazMunaiGas, is one of Kazakhstan's top three oil producers, and the total volume of its proved and probable reserves, as at the end of 2008, is 241 million tones (1.8 million barrels) [6]. In June 2010, CNPC signed an agreement with KazMunaigas to build the second phase of the Kazakhstan-China Gas Pipeline in a bid to tap gas reserves in southern Kazakhstan (*People's Daily,* June 14).

Azerbaijan: In 2009, bilateral trade reached $300 million (Crescent Online, June 18). In June 2010, Prime Minister Artur Rasizade and a member of Standing Committee of the Political Bureau of the Communist Party of China, Secretary of Central Commission for Disciplinary Inspection He Guoqiang, signed an agreement on economic and technological cooperation on He's visit to Baku (State News Agency, June 16). China is to provide grant aid worth 20 million yuan under the agreement. China's CNPC has a 25 percent stake in the Salyan oilfields, while Sinopec is considering bidding for the Azeri-Chirag-Gunashli oil project (about US$3 billion) (CACI Analyst, June 9). China is eyeing ways to enhance Chinese presence in the region, such as the proposed Kars-Akhalkalaki-Baku railway linking Turkey, Georgia and Azerbaijan, and connecting the Asian and European railway systems (CACI Analyst, June 9). It has presented itself to Azerbaijan as an attractive alternative market to Europe's Nabucco project—which after a decade of debate and competing European projects such as White and South stream is testing Baku's patience (*Hurriyet,* December 23, 2009).

Iran: In 2009, bilateral trade was $21.2 billion. Over 100 Chinese state-owned companies operate in Iran, and it is estimated that between 2005 and 2010, Chinese firms signed $120 billion worth of contracts with the Iranian hydrocarbon sector (Fars News Agency, May 8; AEI Iran Tracker, July 13). In 2008, CNPC and NIOC signed a $1.76 billion deal to develop the North Azadegan oil field, and in March 2009, China signed a $3.2 billion gas deal for the South Pars Gas field. In June 2009, CNPC inked $5 billion deal with NIOC to help develop phase 11 of the field. In August 2009, China agreed to a $3 billion deal to expand Iran's Abadan and Persian Gulf refiners, and in September 2009, Sinopec and CNPC signed a $4 billion contract to increase oil production in Iranian oil fields. In November 2009, Sinopec agreed to expand this figure to $6.5 billion in financing (Fars News Agency, August 15, 2008; Fox News, March 15, 2009; Fars News Agency July 29, 2009; *Financial Times,* September 22, 2009; *Reuters,* November 25, 2009). In April 2010, as unilateral U.S. sanctions against Iranian gasoline imports appeared imminent, CNPC exported 600,000 barrels of gasoline to Iran worth $110 million while Sinopec's trading company, Unipec, agreed to ship some 250,000 barrels to the country via a third party in Singapore (Press TV, April 22). Moreover, China is keen to join the Iran-Pakistan-India (IPI) Pipeline that competes with the U.S.-backed Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline to stabilize Afghanistan (Zawya, February 5).

China's Silk Road Strategy toward the Caspian Sea

China appears to have three broad goals in the Caspian region, which is tied to its interests in Central Asia: (1) provide security to the region and anchor its restive Xinjiang province; (2) gain access to natural resources; and (3) consolidate political influence to become a regional hegemon via SCO's political framework. This is part of China's overall Silk Road strategy to diversify energy dependence from the unstable Gulf region and build overland routes to hedge against maritime supply disruptions from the Gulf [7]. According to CNPC Research and Development Department Director Yan Xuchao, China's oil security faces several risks in the near term: increased oil pricing as oil production extends to volatile regions and difficult terrain; transportation channel risk as traffic volume at the Malacca Straits nears full capacity with perceived threat of U.S. military deployment in the region; political risk as the oil sector is politicized in inter-state competitions (*China Brief,* January 31, 2008) [8]. Beijing thus seems to be using financial means to create oil and gas dependency in the region as a platform for eventual political-military cooperation [9]. Equally, the Caspian region's "look east" policy toward China provides an alternative market to EU and Russia. Xia Yishan, an energy expert at the China Institute of International Studies, said "China can be a stable buyer of Central Asia oil and gas… China's economic takeoff and growing awareness of environmental protection needs, demand of clean energy [including natural gas] is bound to soar" [10].

Moreover, Guo Xuetang, deputy director of the Institute of International Politics at Tongji University, argues for strengthening the SCO for energy cooperation and to work with Russia to bring Turkmenistan and Afghanistan into the SCO fold [11]. Guo argues that the SCO has been successful in accelerating regional integration, and as Iran is an observer in the SCO, this will further promote integration via infrastructure projects, and "building the proposed oil pipeline from Kazakhstan via Turkmenistan to Iran may be raised if this is coordinated through the SCO" [12]. Guo further contends that China should explore bilateral and multilateral oil cooperation for an overseas oil strategy in order to allay fear of the "China oil threat," such as Sino-Indian agreements to "enhance the reputation of China's strategy internationally" [13]. Indeed, China hopes that U.S. troops will depart from the region so that it can move into the power vacuum via the SCO without any significant challenge from Russia [14]. The Chinese assess that due to U.S. focus on terrorism and nuclear proliferation in the post 9/11 world, Washington has been propelled to consider cooperation with other countries, such as China, and grant it some leverage over U.S. policy, as well as avoid confrontation in the near to medium term. Wang Jisi, dean of School of International Studies at Peking University, suggests that "The readjustment of the center of gravity of U.S. global strategy has determined that for several years to come it will not regard China as its main security threat..." [15].

China's interests in the Caspian Sea anchor its larger Silk Road Strategy toward the Middle East, Europe and Africa that make up the Union of the Mediterranean. China is not only investing in emerging markets but also developed markets through dollar diplomacy (e.g. its massive bailout of Greece) and opening the prospect of rising Chinese influence in fiscally-fragile developed states, which could potentially be tied into not only Chinese loans, but agreements to sell infrastructure, technology or financial assets [16].

Syria's Four Seas Strategy

While China is moving west towards the Caspian Sea, Damascus is concurrently moving eastward. Since 2009, Bashar al-Assad has been promoting a "Four Seas Strategy" to turn Damascus into a trade hub among the Black Sea, Mediterranean Sea, Persian Gulf/Arabian Sea and the Caspian Sea. Aligning Syria with countries that lie on these shores—Turkey, Iran, and Azerbaijan (*The Weekly Middle East Reporter,* August 1, 2009)—Assad peddled this idea in May 2009 with Turkey, stating that "Once the economic space between Syria, Turkey, Iraq and Iran become integrated, we would link the Mediterranean, Caspian, Black Sea, and the [Persian] Gulf … we aren't just important in the Middle East…Once we link these four seas, we become the compulsory intersection of the whole world in investment, transport and more." He described Syria's nexus of "a single, larger perimeter [with Turkey, Iran and Russia]…we're talking about the center of the world" [17]. Syria can thus act as a means of access for EU countries to markets in the Arab world and western Asian countries [18]. Assad discussed this vision with Medvedev in May this year, and in August 2009 he received Iranian supreme leader Ali Khamenei's blessing when he presented this strategy [19].

To this end, Assad is taking steps to expand the Arab Gas Pipeline (AGP) to pipe gas from Egypt and Iraq via Syria, and connecting with Nabucco pipelines to Turkey onto Europe.

AGP currently links Egypt with Jordan, Syria, Lebanon, and a new 62 km link between Syria and Turkey was signed in 2009 to be completed in 2011 (*Forward Magazine,* February 2010). This would provide a much-demanded supply of gas to northern Syria, and as gas becomes available form other sources (primarily Iraq), it will ultimately serve as a supply route to Turkey and the EU. Syria's long-term aim is to be a transit state for Egypt, Iraq, Iran and Azerbaijan (*Eurasia Review*, June 29). In 2009 Assad visited Azerbaijan—the first Syrian president to visit since Azeri independence in 1991—and signed 19 cooperation agreements and MOUs on economic, political and commercial fields. This included a deal for Azerbaijan to export 1.5 bcm of gas annually to Syria via Turkey in mid 2011 (*World Bulletin*, July 2; *The Turkish weekly*, June 29). It is also eyeing a role in the Nabucco gas pipeline project, while Russia's Gazprom considers joining the Arab Gas Pipeline that will feed gas from Egypt, Iraq, and Azerbaijan into Nabucco (*Pipeline International,* May 12). Another Russian company, Stoytransgaz, has been involved in the construction of the first two stages of the AGP, building a gas processing plant in central Syria and another 75km south of Al-Rakka (World Bulletin, July 2; *The Turkish Weekly*, June 29).

Implications

China's Silk Road Strategy is linking up with Syria's look east policy at the Caspian region. The region is a key source for feeding various pipeline projects: Azeri gas to the first stage of the Nabucco pipeline to Europe, which will eventually connect with the AGP to the Middle East; Turkmen and Kazakh gas via the Central Asia-China Pipeline and the Kazakhstan-China Pipeline to China; and Turkmen gas to Afghanistan, Pakistan and India via the TAPI pipeline to South Asia. Concurrently, a new Eurasian regional security architecture based on energy security appears to be emerging, with Turkey, Syria and Iran in the Four Seas Strategy to connect with the Shanghai Cooperation Organization. In 2007 an Iranian Fars News Agency article, entitled "Inevitable Iran-Turkey-Syria-Russia Alliance," discussed how this "union of four" would challenge U.S. policies in the Middle East (Fars News Agency, November 5, 2007). Likewise, Russia and China may be taking steps to use the SCO to build a new regional security architecture that reinforces each other's territorial integrity while retrenching Western influences [20]. As Russia is steadily increasing its Black Sea Fleet (Reuters, July 12; Christian Science Monitor, May 19), gaining a foothold in the Mediterranean via the Syrian port Tartus and forming a Black Sea military alliance with Turkey and Ukraine to be signed in August 2010 (RIA Novosti, June 28; Vestinik Kavkaza, June 29; World Security Network, July 7), China is increasing its footprint in the Caspian region via the SCO and Silk Road of pipelines, rail and highways [21]. Once again, there appears to be a new "great game" around the Caspian region and the Greater Middle East.

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Notes

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2. Israel H. Seguin, "Petropoitics by the Caspian: What Interests are at Stake?" *Global Politics,* Issue 3, July 2007.
3. Ivan Antonov, Vasily Voropaev, Izvestiya, "What does China seek and what does China find in Central Asia?" *Russia & India Report,* June 11, 2010.
4. Alexandros Petersen, "Did China Just Win the Caspian Gas War?" *Foreign Policy*, July 7, 2010.
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11. Ibid., 135.
12. Ibid., 136.
13. Ibid., 137.
14. Thrassy N. Marketos, *China's Energy Geopolitics: The Shanghai Cooperation Organization and Central Asia* (New York: Routledge, 2010): 5.
15. "Wang Jisi Views Sino-U.S. Relations, Beijing Zhongguo Dangzheng Ganbu Luntan, January 5, 2006, mimeo: 4.
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17. Tony Badran, "A Syria in minor key," Foundation for Defense of Democracies, 29 June 2010.
18. Syrian Report, 1 August 2009.
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21. David Eshel, "Russian Mediterranean Naval Build-Up Challenges NATO Sixth Fleet Domination," *Defense Update*.

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