

Central Asia, Washington and Beijing Energy Geopolitics

By [F. William Engdahl](#)

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On December 15, the state-owned China National Petroleum Corp. (CNPC) inaugurated an oil pipeline running from Kazakhstan to northwest China. That pipeline will undercut the geopolitical significance of the Washington-backed Baku-Tbilisi-Ceyhan oil pipeline which opened this past summer amid big fanfare and support from Washington. The geopolitical chess game for the control of the energy flows of Central Asia and overall of Eurasia from the Atlantic to the China Sea is sharply evident in the latest developments.

Making the Kazakh-China oil pipeline link even more politically interesting, from the standpoint of an emerging Eurasian move towards some form of greater energy independence from Washington, is the fact that China is reportedly considering asking Russian companies to help it fill the pipeline with oil, until Kazakh supply is sufficient. Initially, half the oil pumped through the new 200,000 barrel-a-day pipeline will come from Russia because of insufficient output from nearby Kazakh fields, Kazakhstan's Vice Energy Minister Musabek Isayev said Nov. 30 in Beijing.

That means closer China-Kazakh-Russia energy cooperation—the nightmare scenario of Washington geopolitical strategists such as Zbigniew Brzezinski or Henry Kissinger.

Simply put, Washington stands to lose major leverage over the entire strategic Eurasian region with the latest developments. The Kazakh developments also likely has more than a little to do with the fact that the Washington war drums are suddenly beating more loudly against Iran.

The new China pipeline runs 962-kilometers (598-miles) and will take China a third of the way to Kashagan in the Caspian Sea, one of the world's largest accessible oil reserves. Kashagan is the largest new oil discovery in decades and exceeds the size of the North Sea. This is a major reason Washington has such a strong interest in supporting democratic regime change in the Central Asia region of late.

In the next 10 years, Kazakhstan plans to almost triple oil production, prompting the landlocked nation to seek new export routes because the country wants to avoid pipelines through Russia and excessive Russian dependence. China is now among Kazakhstan's major target markets.

Best public estimates are that Kazakhstan has 35 billion barrels of discovered oil reserves, twice the amount in the North Sea, and may hold about three times more, according to a Kazakh government report released Nov. 18 in London. German oil engineers have privately reported that recent drilling by Italy's AGIP, the current oil consortium leader for Kashagan, a huge field offshore Kazakhstan southwest of Tengiz, has confirmed enormous oil deposits

there.

The Government of President Nursultan Nazarbayev plans to produce 3.6 million barrels a day of oil from all fields in Kazakhstan, onshore and off, by 2015. For 2005, they expect to average about 1.3 million barrels a day, making Kazakhstan far larger than Azerbaijan, and second in oil production of the former Soviet states only to Russia. (*Source: Stratfor*)

The December 15 opening of the new Kazakh-China pipeline was a major event for Beijing. Zhang Guobao, vice chairman of the National Development and Reform Commission, China's top economic planning agency, attended the opening. China National Petroleum has invested more than \$2.6 billion in Kazakhstan since 1997.

Beijing takes the geopolitical prize

In October this year, Beijing scored a second major geopolitical coup when China completed a \$4.18 billion takeover of PetroKazakhstan Inc. It was, in a sense, revenge on Washington for the blocking of the China acquisition of Unocal. US oil majors had made major efforts to lock up Kazakhstan oil after discovery of major oil offshore in the Kashagan field. They failed. ExxonMobil was charged with bribery of Kazakh officials to win presence in the Kazakh oil business, and a senior Mobil executive was later jailed on US tax evasion in New York tied to the Kazakh bribery payments.

Nazarbayev enjoys good relations with Russia's Putin. He was General Secretary of the Communist Party when Kazakhstan was part of the USSR, and is regarded as a sly fox in terms of dealing with Moscow, while also keeping a clear distance from Moscow.

In October, Russia's Lukoil failed in its bid to buy up the Kazakh state oil company, PetroKazakhstan, in a privatization. Nazarbayev indicated a major geopolitical shift in strategy, compared with a decade or more ago, when it appeared that Washington was to be the major foreign ally of Nazarbayev. At that time Condoleezza Rice's company, Chevron, became the lead oil contractor and operator in the Kazakh Tengiz oil field. That was just after the breakup of the Soviet Union and US oil presence in Kazakhstan was a major US political priority supported by the Clinton Administration.

The Chevron Tengizchevoil consortium formed the Caspian Pipeline Consortium (CPC) in 1993 amid great fanfare. After years of haggling with the Kazakh government, Chevron finally constructed a pipeline from Tengiz on the Caspian's northeastern shore to the Russian port of Novorossiysk on the Black Sea. Following years of pressure, most members of the CPC group, including Chevron and Oman Oil Co. decided to not pursue future expansions of the CPC line.

Today, a decade later and with the scope of Kazakh oil deposits dwarfing any in the region, with its recent confirmed drillings in Kashagan field, Nazarbayev has scored a political balance of power coup by turning now to Beijing.

In October, Nazarbayev announced that China National Petroleum Corporation had won the bid to buy PetroKazakhstan. What will be important to watch, now that Nazarbayev won re-election on December 4, further extending his 14-year reign, is to what extent Washington begins to play up 'human rights abuses' by Nazarbayev.

A fledgling 'Orange Revolution' copycat opposition has sprung up behind opposition candidate, Zharmakhan Tuyakbai, and his party, 'For A Just Kazakhstan.' He came in second

with 6.6% and cried fraud, but Washington and US media response was muted. US Secretary of State Rice, in a major trip to shore up sagging US influence in Central Asia on October 10-13, had held a private meeting with Tuyakbai. He is clearly being groomed for possible future role.

Washington suffers strategic setback

A major setback for Washington's Eurasian encirclement strategy vis-à-vis China and Russia came several months ago when Uzbekistan's autocratic President, Islam Karimov, told Washington it could no longer use the Karshi-Khanabad military air base in southeast Uzbekistan, a major piece in Washington's Eurasian chess board play put into place after September 11, 2001.

Since strong US protest over the Government's bloody suppression of protests against a state trial of alleged Islamic fundamentalists in Andijan last May, Karimov's relations to Washington have chilled and Putin has moved skillfully to fill Uzbekistan's power vacuum. Karimov's decision to move so aggressively was no doubt influenced by the successful March 2005 'Tulip Revolution,' which toppled President Askar Akayev in neighboring Kyrgyzstan and set the stage for the July election of opposition and US-backed candidate, Kurmanbek Bakiev.

On July 29, Karimov announced he was evicting the US entirely from the airbase with a January 2006 exit date. In October the US Senate, as retaliation, voted not to pay \$23 million in base user fees to Uzbekistan for past use. Moscow and Beijing have both moved into the vacuum. A look at the map will indicate why. Uzbekistan is strategic for control or to prevent control by foreign powers such as Washington, of Central Asia and pipeline routes linking Russia, China, Kazakhstan. In October 2004, Moscow secured a long-term military base agreement to station thousands of Russian troops in the capital, Dushanbe, a move by Washington to limit the spread of Washington-backed 'color revolutions' in the region.

That appeared to redraw the Eurasian geo-strategic map in Moscow's favor with the recent US loss of Uzbekistan. Uzbekistan is now effectively Russia's main ally in Central Asia.

Washington's position in Eurasia and its future relations with Kazakhstan suddenly assumed high priority. Clearly, the Bush Administration decided time was not ripe to try a full-blown Orange Revolution, a la Ukraine, in Kazakhstan this month, at least not until Washington's position in the region was stronger. That was a clear purpose of the October Rice visit.

But now with the strong geopolitical turn of Nazarbayev toward playing Beijing and China to offset potential Washington domination in the region, the situation has begun to change dramatically. A year ago, China attempted to buy out the 16% share in the Kashagan consortium from British Gas which was willing to sell. That sale was blocked at the time by US consortium member ExxonMobil, the company subsequently charged with bribery and convicted. Now China has opened an oil flow out of Kazakhstan to the East, not the West. (Source: Stratfor)

This has major strategic implications as well for the future of the Washington-backed Baku-Tbilisi-Ceyhan (BTC) oil pipeline. That pipeline, recall, was built by the Caspian Oil Consortium headed by British Petroleum, and was backed by both Bill Clinton and George W. Bush, in the face of strong charges that it was the most costly and least viable oil route out of the Caspian. Zbigniew Brzezinski was the chief Washington lobbyist advocating the BTC

route to circumvent Russia. Its construction was undertaken on the assumption that it would carry not only Baku oil, but also a major share of Kazakh oil from Tengiz and offshore Kashagan oil fields. Oops!...

A larger China energy strategy

The December China-Kazakh pipeline opening is one part of a massive Chinese plan to secure as much of Kazakhstan's oil riches as possible.

The Chinese plan aims to connect several pieces of infrastructure — some Soviet-built, some Chinese-built — then reverse the flow of some of them and forge a new export corridor stretching from Kazakhstan's oil-rich Caspian basin, including Kashagan, through a series of western- and central-Kazakh oil zones, and ultimately into China. With completion of this major project, China will for the first time have secured a source of imported energy not vulnerable to US aircraft carrier battle groups, as is the case with oil deliveries from the Persian Gulf and Sudan at present.

Before opening the new pipeline, China imported only 25,000 bpd from Kazakhstan. Once the link between Kenkiyak and Kumkol is finished, connecting existing infrastructure near the Caspian with the portion inaugurated Dec. 15, the project will pump 1 million bpd. That would be about 15 percent of China crude oil needs.

China then plans to tap into production from dozens of Kazakh sites they have acquired during the past several years. This is oil that currently goes west, or north through Russia.

Beijing still likes the color 'red'

Beijing has also studied the Washington-backed series of regime change across Central Asia and the Color Revolutions from Serbia to Georgia to Ukraine and most recently Kyrgystan, and has evidently decided to 'nip in the bud' any similar NGO efforts within China, or in areas strategic to long-term China energy security. Kyrgystan's 'Tulip Revolution' last July sounded alarm bells in Beijing. Possible Chinese pipeline links to Kazakhstan, Turkmenistan, Iran and or Russia would clearly be threatened by a ring of new pro-NATO neighbors and states between western China and its potential oil sources.

Their alarm led to warmer ties between Uzbekistan's Karimov and Beijing in recent months, as well as an invitation of Moscow-tied Belarus President, Yuri Lukashenko. The Washington journal, *Foreign Policy*, ran a short item in its October 2005 edition by an apparent Chinese dissident. The article, titled, 'China's Color-Coded Crackdown,' states:

'In China's halls of power, the fall of post-Soviet authoritarian regimes has raised the uncomfortable specter of a Chinese popular uprising. According to the Hong Kong-based Open magazine, a report by Chinese President Hu Jintao, titled 'Fighting the People's War Without Gunsmoke', is guiding the Chinese Communist Party's 'counterrevolution' offensive. The report, disseminated inside the party, outlines a series of measures aimed at nipping a potential Chinese 'color revolution' in the bud.'

Some Chinese apparently call it the Battle of the Two Georges- George Bush and George Soros.

The Foreign Policy piece continues, *'Perhaps the most telling sign of China's concern has*

been its crackdown on nongovernmental organizations (NGOs). Beijing believes that international organizations, especially advocacy NGOs, have acted as Washington's 'black hands' behind the recent regime changes in Central Asia. A recent issue of a biweekly journal run by the Communist Party Propaganda Department referred to Washington's '\$1 billion annual budget for global democratization' and identified NGOs such as the International Republican Institute, the National Endowment for Democracy (NED), the U.S. Institute of Peace, and the Open Society Institute as organizations that 'brainwash' local people and train political oppositions. In late August, ahead of a visit by the U.N. high commissioner for human rights, Chinese police raided the office of the Empowerment and Rights Institute, a human rights group supported by the NED.

'A new regulation offering more freedom to NGOs was initially expected later this year. No longer. The Ministry of Civil Affairs has now stopped processing registration applications, effectively freezing many groups' operations. Instead, the only government offices taking an interest in NGOs are the national security agency (China's secret police) and public security forces. Both have launched investigations into local NGOs. Some senior Chinese managers working for international NGOs have been called in for "private talks" with authorities, though no related arrests or detentions have been reported. Some NGO offices have had plainclothes security officers show up in an effort to clandestinely ferret out information on foreign staff and organizations. Environmental groups have been singled out for a massive government survey, most likely because they have angered powerful agencies by successfully initiating public debates on controversial issues, such as genetically modified foods and huge dam projects, and because only around 10 percent of green groups are currently registered with the state.

Meanwhile, Beijing has commissioned researchers from several provincial academies of social science to study the activities of NGOs in China. NGO publications such as directories experienced unexpectedly strong sales in recent months, as they no doubt became convenient study tools. Likewise, experts have been dispatched to Central Asia to study how those color revolutions first sprung roots. In a May 19 Politburo meeting, senior administrators from the Chinese Academy of Social Sciences, where foreign research funds are usually well received, were reminded of the "acute and complicated struggle in the ideological realm in the new millennium." In other words, be careful about the political implications of your research.

According to sources in Beijing, final decisions on the government's approach to NGOs will be made in a November meeting of the State Council, China's highest executive body. As long as the clouds of color revolution are hovering over Central Asia—some, for example, expect storms in Belarus—the Chinese government will stay on high alert...Beijing's moves against the country's NGO community remain largely unnoticed outside China. If the international community wants an open and democratic China, it should pay more attention to the survival and growth of Chinese liberal institutions. Otherwise, the country will be destined to remain the same shade of red.'

Beijing-Teheran-Moscow

At the end of 2004, Beijing signed a \$70 billion energy agreement with Teheran, China's largest OPEC energy deal to date. Sinopec agreed to buy 250 million tons of LNG over 30 years from Iran, as well as to develop the giant Yadavaran field. That agreement covered the comprehensive development by China's state Sinopec of the giant Yadavaran gas field, construction of a related petrochemical and gas industry including pipelines. As part of the

huge Iran-China economic cooperation agreement, China's state-run military construction company, NORINCO, will expand the Teheran Metro underground.

A second phase in the Iran-China strategic energy cooperation involves constructing a pipeline in Iran to take oil some 386 kilometers to the Caspian Sea, there to link up with the planned pipeline from China into Kazakhstan. Indeed, the

At that time, Iran's Petroleum Minister announced that Teheran would like to see China replace Japan as Iran's largest oil importer. As well, Iran has what are estimated to be the world's second largest reserves of natural gas after Russia. It is a place of enormous strategic importance to China, to Japan, to Russia, to the European Union, and for all these reasons, to Washington as well.

Iran supplies 14% of China's oil. Along with Russia, China has been involved since the late 1990's in supplying nuclear technology to Teheran. In 1997 Beijing under Washington pressure nominally agreed to stop shipments, but the flows are believed continuing as the Iran relation is strategic and critical to China energy security. China, a veto member of the UN Security Council has repeatedly called for the issue of Iranian nuclear development to be dealt with by the International Atomic Energy Agency, whose chief, Nobel Peace Prize awardee, Mohamed ElBaradei, has earned the enmity of Washington war hawks for his open declarations of lack of evidence in both Iraq and now Iran of atomic bomb capability.

Given the nature of the Bush Administration's rush to war in Iraq in 2003, where China had a major stake in oil development, and the subsequent US blocking of other Chinese attempts at securing energy independence including Unocal, it is not surprising that Beijing is taking extraordinary measures to secure its long-term oil and gas supply.

Energy is the Achilles Heel of China's economic growth. Beijing knows that only too well. So does Washington. A decision to take military action against Iran would pull a far larger cast of actors into the fray than Iraq.

Global research Contributing Editor F. William Engdahl is author of the book, 'A Century of War: Anglo-American Oil Geopolitics and the New World Order, Pluto Press Ltd. And can be contacted via his website, www.engdahl.oilgeopolitics.net.

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