

Keeping Friends Close, and Their Oil Closer: Rethinking the Role of the Shanghai Cooperation Organization in China's Strive for Energy Security in Kazakhstan

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ABSTRACT

It is generally acknowledged that Beijing's bilateral oil dealings pertaining to the construction of the Atyrau-Alashankou pipeline comprise the backbone of China's strive for energy security in Kazakhstan. Against the backdrop of a widespread scholarly claim that the Shanghai Cooperation Organization (SCO) plays no role in this endeavor, this thesis argues that Beijing acts as a security-seeker to bind both Kazakhstan and Russia into energy cooperation within the organization. Acting as a regional forum through which China channels and reinforces its oil dealings, I argue that the SCO corrects the pitfalls of a bilateral approach which elicits the counter-balancing of Chinese activities by Astana and Moscow who are concerned with the distribution of gains. Putting to a test differing hypothesis by rationalist IR theories, I find that the SCO approach enables China to assure both actors about its benign intentions and maximize gains on a bilateral level as expected by defensive neorealism.

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INTRODUCTION

The insatiable need for hydrocarbon resources, particularly oil, has emerged as one of the most challenging issues in Chinese energy security policy at the outset of the twenty-first century. Apart from boosting the economic and industrial growth, petroleum is an essential resource with the significant security and strategic implications insofar as it fuels nation's military power. As China's overall economic and military power has been accumulating for more than three decades now, so its thirst for oil has scored staggering rise which irresistibly expands on a year basis. According to expert reports, Chinese oil consumption, comprising more than 25 per cent of overall Chinese energy needs, has more than doubled from 3.5 billion barrels per day (bbl/d) in 2006 to 7.8 bbl/d in 2008, and it is expected to peak at 13.1 bbl/d in 2030.¹ A strong domestic impetus for the expanding economy as a way to preserve political stability and social coherence, inasmuch as Beijing's growing intention to act as a major power in international politics, have made energy security a top priority in the country's national security policy. This thesis deals with China's strive for energy security in Kazakhstan and the role of the Shanghai Cooperation Organization (SCO) in this endeavor.

The main objective of Chinese energy policy rests with the oil routes diversification by decreasing the dependence on the Middle Eastern oil,² and the enhancement of the country's petroleum supply "through owning both the resource in the ground and, where relevant, the

¹ Energy Information Administration, "Country Analysis Brief-China", source: <http://www.eia.doe.gov/cabs/China/pdf.pdf> (19/02/2010); International Energy Agency, "WEO 2007 Fact Sheet – China", source: http://www.iea.org/papers/2007/fs_china.pdf (13/04/2010).

² Charles E. Ziegler (2006): "The Energy Factor in China's Foreign Policy", *Journal of Chinese Political Science*, 11(1), pp. 5.

transport network”.³ Throughout the mid-1990s and early-2000s China’s global quest for oil accelerated following the massive conclusion of bilateral arrangements with the Middle Eastern, Latin American, African and Central Asian oil-rich countries.⁴ However, the Middle East still remains China’s key oil pond accounting for more than 50 per cent of its oil imports. This fact represents the key vulnerability in China’s energy security which appears more highlighted after the radical Islamist insurgency and the US military encroachment on the region.

To reduce transportation risks associated with the Middle East, China has directed its energy policy course toward the so-called pipeline politics in the neighboring Central Asia, with a particular emphasis on oil-rich Kazakhstan.⁵ While competing with the western companies occupying Kazakhstan’s main oil fields such as Tengiz, and with Russia, controlling 80 per cent of all oil routes heading from the Caspian to Europe, China has embarked on a massive oil pipeline project to connect the Kazakh oil riches with Chinese Xinjiang. The gigantic Atyrau-Alashankou (Kazakh-Chinese) pipeline, into which Chinese companies have hitherto poured billions of US dollars, represents the core oil project underpinning all Beijing’s oil dealings with Kazakhstan from 1997 to 2009. While its profitability may be contested given that the pipeline meets around 8 per cent of its oil needs, the strategic and security importance of the project

³ Philip Andrews-Speed and Sergei Vinogradov (2000): “China’s Involvement in Central Asian Petroleum: Convergent or Divergent Interests?”, *Asian Survey*, 40(2), pp. 390.

⁴ Zhiquan Zhu (2007): “Petroleum and Power: China, the Middle East and the United States”, *Yale Journal of International Affairs*, pp. 29.

⁵ Kazakhstan has the tenth largest proven oil reserves in the world. According to some estimation, the country’s proven oil reserves amount to approximately 30-39.8 billion barrels. See: Energy Information Administration, source: <http://www.eia.doe.gov/emeu/international/oilreserves.html> (19/02/2010); British Petroleum, “BP Statistical Review of World Energy June 2009”, pp. 6, source: http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/2009_downloads/statistical_review_of_world_energy_full_report_2009.pdf (13/04/2010).

underscores Beijing's interest in decreasing the reliance on onshore routes dominated by US fleet and stabilizing politically volatile Xinjiang.⁶

The whole project is surrounded with the Chinese struggle to keep with expanding into the Kazakh oil sector to preserve energy security, while simultaneously dealing with the increasing awareness of both the host country, Kazakhstan, and the region's oil monopolist, Russia. In doing so, I argue that Beijing acts as a rational actor interested in maximizing long-term gains while conceding temporary losses. Against the backdrop of scholarly arguments underpinned with the offensive neorealist logic who claim that Chinese energy strategy toward the Caspian is purely a bilateral and offensive, I suggest that Beijing's tactic aims at binding Kazakhstan and Russia into cooperation through a skillful combination of a bilateral and multilateral approach. Rather than complying with the neoliberal prediction that states may cede some power to institutions so as to increase gains through lowering cheating probability and trade-offs, I argue that the Shanghai Cooperation Organization (SCO),⁷ of which China, Kazakhstan and Russia are members, provides Beijing with an useful mechanism to advance its

⁶ Kazakhstan's landlocked geographical location grants Beijing safe oil transport beyond the striking capabilities of US aircraft carrier battle groups, which can target Chinese oil supply lines from the Middle East. In particular, China aims at reducing the dependency on the Malaccan straits through which most of the oil is annually transported. Likewise, Beijing sees energy cooperation with Kazakhstan as a shortcut to the stability of Central Asia which may bring stabilize Xinjiang. Chinese leadership expects energy arrangements connecting Xinjiang with Central Asia to weaken the external support for the Uyghur separatist movements among the Central Asians. See: Xuanli Liao (2006): "Central Asia and China's Energy Security", *The China and Eurasia Forum Quarterly*, 4(4), pp. 65; Marc Lanteigne (2009): *Chinese Foreign Policy: An Introduction*, (London: Routledge), pp. 86; Nicholas Becquelin (2000): "Xinjiang in the Nineties," *The China Journal*, no. 44, pp. 65-93.

⁷ The organization grew out of the Shanghai Five, a regional forum established in 1996 by China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan to solve border dispute and facilitate good neighborly relations through the annual summits. Following the accession of Uzbekistan in 2001 it became institutionalized into the Shanghai Cooperation Organization. This regional organization has been primarily seen as regional forum for cooperation in non-traditional security issues and as a counterbalance to the influence of the United States in Central Asia. Primarily, the focus of the SCO is placed on dealing with the substantive security issues such as border control, anti-trafficking activities, drugs smuggling prevention, and the fight against terrorism, separatism and religious extremism. Yet, energy cooperation has become one of the key concerns in the organization's discourse. Russia and China have during the 2006 and 2009 SCO summits raised a voice for closer energy cooperation.

interests and correct the pitfalls of its bilateral approach. The logic of this behavior demonstrates China's intention to avoid counter-balancing of its energy activities by the Kazakh and Russian leadership who seem to consider Beijing's mounting strive for oil threatening to their interests.

Politically, the Sino-Kazakh oil deals have indeed been agreed during bilateral summits between the Kazakh and Chinese high-ranking officials. The oil agreements, acquisition of petroleum fields in the Kazakh zone of the Caspian or even the initiative to construct the Atyrau-Alashankou pipeline was to a great extent negotiated on a bilateral basis. This has led many scholars to study Chinese energy strategy toward Kazakhstan in terms of a bilateral approach.⁸ Some authors claim that China prefers to deal bilaterally with Astana because it is more successful and prevents the obstruction of Russia to China's quest for energy.⁹ Others posit that bilateral energy talks provide China with greater leverage over Kazakhstan, which leads to a positive outcome in negotiations increasing Beijing's power relative to Astana. Yet, none of the authors pays attention to increasing role of the SCO in Chinese energy strategy toward Central Asia.

Sebastien Peyrouse, for instance, argues that the growing Sino-Kazakh economic rapprochement is inextricably linked to China's strategy of transforming Central Asia into its sphere of geopolitical influence.¹⁰ The underlying Chinese strategy towards Kazakhstan, which

⁸ Sebastien Peyrouse (2007): "Economic Aspects of the Chinese-Central Asia Rapprochement", *Silk Road Paper* (Stockholm: Central Asia-Caucasus Institute), pp. 56-59; Nicklas Swanstrom (2005): "China and Central Asia: a New Great Game or Traditional Vassal Relations", *Journal of Contemporary China*, 14(45), 576-579; Thrassy Marketos (2009): *China's Energy Geopolitics: the Shanghai Cooperation Organization and Central Asia*, (London: Routledge), pp. 7-31; Janet Xuanli Liao (2006): "A Silk Road for Oil: Sino-Kazakh Energy Diplomacy", *Brown Journal of World Affairs*, 12(2), pp. 39-51; Stephen Blank (2005): "China, Kazakh Energy, and Russia: An Unlikely Ménage à Trois", *The China and Eurasia Forum Quarterly*, 3(3), pp. 99-109.

⁹ Stephen Blank (2005): "The Eurasian Energy Triangle: China, Russia, and the Central Asian States", *Brown Journal of World Affairs*, 12(2), pp. 57.

¹⁰ Peyrouse, *op. cit.*, pp. 8.

Peyrouse posits to be predominantly bilateral in its scope, is driven by a need to complete the strategically important Atyrau-Alashankou pipeline which will provide oil to the most remote eastern parts of China.¹¹ Swanstrom likewise argues that the rationale behind China's growing presence in Kazakhstan is driven by a desire to dominate the region in order to secure valuable hydrocarbon assets.¹² Unlike Peyrouse's focus on Chinese bilateral activities, Swanstrom suggests that the SCO serves as added value to Chinese bilateral engagement. Yet he claims that the SCO should be seen as a mere instrument of China's economic and political inroad into Central Asia which will ultimately diminish Russian influence and set up a basis for "new vassal relations" between Beijing and the region at large.¹³

However, findings suggest that the SCO is not dominated by Beijing given that Russia, Kazakhstan and other members gladly use this platform to check Chinese growing influence in energy or any other regional issue. Creation of the Energy Club and other energy arrangements within the SCO support this observation. Simultaneously, China is using the SCO to dissuade the member states about Beijing's allegedly mal intentions through the SCO framework. Therefore, while adhering to the expansive logic behind Chinese energy engagement in Central Asia both authors fail to acknowledge that Beijing is increasingly using the SCO basis to avoid obstacles Kazakhstan and Russia are posing to its energy activities in the Caspian.

Other authors yield certain significance to the SCO framework, yet still overshadow it with a sole emphasis on Chinese bilateralism. Artyom Matusov, for instance, argues that China is unready to engage on a multilateral basis in energy cooperation as it makes Beijing vulnerable to

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Swanstrom, *op. cit.*, pp. 569-584.

the congruent interests of Russia and Central Asia as oil exporting countries.¹⁴ As a corollary, the SCO framework remains underdeveloped and wedded to separately negotiated deals between China and other member states. Matusov claims that despite Beijing's bargaining with the Central Asian states through the SCO framework there is not much difference in the format and outcomes of bilateral energy cooperation and the cooperation within the SCO.¹⁵ In fact, he argues that with or without SCO China would find its way to invest in Kazakh oil assets.

This is exactly what Nargis Kassenova points out when analyzing the prospects for multilateral framework of the "SCO Energy Club". Kassenova claims that although China may benefit from participating in a multilateral mechanism for Central Asian energy, "it would most likely prefer to negotiate and solve issues on a bilateral basis".¹⁶ The reason for this, she argues, rests with the "better negotiating positions and a more efficient format" a bilateral basis can provide, as well as China's intention not to exacerbate already competing interests in Kazakhstan and Central Asia.¹⁷ While diminishing the role of the SCO in Chinese oil dealings in Kazakhstan, both authors paradoxically admit that the organization is being used by Beijing for petroleum negotiations and arrangements.

If China is disinterested in channeling its energy strategy through the SCO because it bilaterally possesses greater bargaining power *vis-à-vis* its partners, as they both claim, then it becomes puzzling why Beijing is using the organization as a platform in pursuing energy related goals. For instance, Chinese officials held talks over the extension of the Atyrau-Alashankou

¹⁴ Artyom Matusov (2007): "Energy Cooperation in the SCO: Club or Gathering?", *The China and Central Asia Quarterly*, 5(3), pp. 83-99.

¹⁵ *Ibid.*

¹⁶ Nargis Kassenova, "The Shanghai Cooperation Energy Club: Purposes and Prospects", in Indra Overland (ed.), Heidi Kjaernet and Andrea Kendall Taylor (2010): *Caspian Energy Politics: Azerbaijan, Kazakhstan and Turkmenistan*, (London: Routledge), pp. 162-175.

¹⁷ *Ibid.*, pp. 169.

pipeline with the Kazakh prime minister in 2005, crafted an oil deal with Uzbekistan during the 2006 SCO Shanghai summit, and even took part in the Russian “SCO Energy Club Project” in 2007. While this thesis acknowledges immaturity of the SCO framework in dealing with the energy issues, it questions the easily refuted argument that the organization plays no role in Beijing’s energy strategy toward Central Asia. Thus, this study aims at providing answers to the two related questions. First, what explains Beijing’s increasing attention to energy cooperation within the SCO? Second, is there a connection between China’s bilateral and the approach within the SCO, and what is the nature of this relationship?

With an intention of answering these questions, I posit one overarching hypothesis: China’s SCO vector in energy cooperation with Kazakhstan reinforces its bilateral strategy by decreasing the chance of counter-balancing by Kazakhstan and Russia through binding both of them into energy cooperation. My null hypothesis is that the SCO framework is occasionally used by Beijing to empower its bilateral approach toward Kazakhstan and Russia without any link between the two levels. The rejection of either hypothesis is conditioned upon the simultaneous use of both levels in acquiring oil assets with regard to the Atyrau-Alashankou pipeline.

In approaching the task, I take bilateral cooperation as an independent variable, and China’s SCO dealings as a dependent variable. In doing so, I intend to analyze whether the changes in Beijing’s bilateral approach contribute to increasing the engagement on the SCO basis. My ultimate aim is to explain whether there is a causal relationship between the two levels of Chinese energy strategy toward Kazakhstan. This may be plausible provided the two intervening variables are included. The first relates to the reluctance of the Kazakh state

authorities to rely completely on one actor in energy security. The “multi-vector” character of Kazakhstan’s energy policy calls for limiting Chinese involvement in the Caspian whilst strengthening national control over oil assets. This approach was particularly prompted after Chinese acquisitions of oil fields and the agreement on the construction of the pipeline, as the fear of Kazakhstan becoming a Chinese resource protectorate inflamed the public and the state institutions alike.¹⁸ The Mazhilis’ (the Kazakh parliament) decision to introduce legislature increasing the state’s share in a joint-venture with a foreign petroleum corporation was underpinned by the perception of the country’s multi-vector energy policy being threatened by the roaming Chinese oil companies. This approach affects both the independent and dependent variables as Beijing is set to adapt its energy strategy to the increasing Kazakh awareness.

The second intervening variable is Russian energy leverage over Kazakhstan. Analyzing Sino-Kazakh energy cooperation without taking into account Moscow’s influence over the Caspian energy landscape would provide an incomplete picture. Russian companies control the bulk of all oil transported via pipelines to outside markets, mainly through the Atyrau-Samara and Kenyiaq-Orsk pipelines, and the Caspian Pipeline Consortium (CPC). From 2003 to present Russian petroleum companies signed several agreements with the Kazakh state-owned companies on the exploitation oil fields and the increase of deliveries via the Russian-controlled oil pipelines.¹⁹ Moreover, Russian companies compete with Chinese petroleum corporations over Kazakh oil which impacts political relations between the two countries. The struggle for the

¹⁸ Azat Dyushebaev, “Stanet li Kazakhstan Resursnym Pridatkom KNR?”, *Analitika*, December 24, 2009, source: <http://eastime.ru/analitic/1/3/743.html> (19/04/2010).

¹⁹ “Russia, Kazakhstan Sign \$23 bln Oil Deal”, *Central Asia and the Caucasus Analyst*, June 7, 2005, source: <http://www.cacianalyst.org/?q=node/3215> (21/04/2010); Sergei Blagov, “Russia and Kazakhstan Pursue Energy Partnership”, *Eurasia Daily Monitor*, September 28, 2009, source: [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=35549](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=35549) (21/04/2010).

Caspian riches between Moscow and Beijing is driven by the need for energy security, but the control over Kazakh hydrocarbons implies more than a supply line; as oil fuels all levels of state power so is the relationship between the two countries rendered by the power struggle. This leads the Russian vector to be of great importance when assessing Chinese energy approach to Kazakhstan.

By moving beyond mere summary, this thesis provides conceptual and theoretical underpinnings on how to rethink Beijing's evolving energy security strategy in the light of the emerging reliance on the SCO framework. Firstly, I broaden energy security from a static notion of state's unilateral search for energy to a more dynamic framework, which encompasses interactions between states on a bilateral and multilateral level. Secondly, I show that security- and power-seekers may concede temporary restraints to achieve long-term gains and even use the double-track approach. Finally, in policy terms, I show that China's worldwide strive for energy security can be distinct including also regional forums as a stance for bargaining and deals. Thus I show that we might need a new approach to grasp Beijing's energy involvement in Central Asia; a one that would pay more attention to the evolving role of the SCO.

The plan of the thesis proceeds as follows. In the first chapter, conceptual and operationalization clarification of variables are undertaken along with the introduction of the theoretical framework. The second chapter deals with the Chinese bilateral dealings in Kazakhstan to pinpoint the pitfalls of Beijing's one-sided approach to securing the Caspian petroleum. This provides a link to understanding the emergence of the SCO vector in Chinese energy strategy which is presented in the third chapter. The final chapter discusses alternative theoretical approaches to Chinese behavior.

CHAPTER 1: THEORETICAL FRAMEWORK AND METHODOLOGY

1.1 Conceptualizing Energy Security and Cooperation

In this thesis two main concepts will be used to deal with the outlined task: energy security and cooperation. First, the concept of “energy security” needs to be distinguished from similar terms, namely “international security” and “environmental security”.²⁰ With regard to the former, “energy security” is a narrower concept located within the traditional aspect of security whereby the state is the main referent object and threats are related to state survival. In other words, “energy security” is linked to national security.

On the other hand, the concept of “environmental security”, although similar to “energy security” regarding the impact of resources on state policies, is distinguished from the proposed concept by the distinct object of inquiry. Whereas “environmental security” is primarily concerned with the impact of environmental changes and access to resources in conflict formation, “energy security” deals with the prospects of the state to attain stable, uninterrupted and diversified inflow of resources to meet fundamental needs in the face of an assumed threat for national survival.²¹ In particular, the aforementioned attribute of “energy security” based on the diversification of supply as the concept’s *differentia specifica* is often cited by scholars to depict the concept as contingent solely upon the control of regular supply by the state.²² This

²⁰ In terms of the definitional scope, “energy security” is herein narrowed to securing stable oil supply and diversification. This does not mean that I reject the significance of other strategic resources for Chinese energy security. On the contrary, my primary aim here is to explain the regional security implications of Beijing’s strive for oil.

²¹ Ronald Kingham (eds.) (2006): *An Overview of Strategies and Initiatives of Selected Governments, International Organisations and Inter-Governmental Organisations*, (Institute for Environmental Security: Hague), pp. 11-17.

²² Edward Fried and Philip Trezise (1993): “Oil Security: Retrospect and Prospect”, (Washington: The Brookings Institution), pp. 4.

perspective, thus, defines “energy security” as national policy issue adhering to state’s unilateral activities in securing appropriate level of energy for its domestic needs.

However, apart from being driven by the state unilateral action energy security acquires its meaning through the interstate cooperation. In its struggle for strategic resources, the state does not act as a “black box” isolated from other actors competing for stable and diversified energy supplies. Rather the state enters different arrangements with other actors which mitigates or hinders the accomplishment of its energy security goals. As a corollary, I propose to advance the energy security concept from a static notion of national policy aimed at securing resources and diversifying routes regardless of other actors’ interests and goals to a more dynamic definition encompassing interstate cooperation/competition on bilateral as well as on multilateral level. Thus, I partly draw on Daniel Yergin’s conceptual proposition.²³ Therefore, *energy security is a system of state national security policies, bilateral relations and institutional frameworks aimed at achieving diversified, stable and constant supply of resources for the state in the face of military, political, economic threats posed by state or non-state actors.*

Referring to the second concept, “cooperation”, it is necessary to delineate between similar but different concepts, that is, “regime” and “integration”. “Regime” relates to a group of states who agree to deal with an issue of mutual importance and is the outcome of cooperation.²⁴ They are more than short-term dealings that cease to exist with the shift in states’ interests.²⁵ Whereas “regime” is contingent upon the existence of “cooperation”, the reverse is not the case.

²³ Daniel Yergin (2006): “Ensuring Energy Security”, *Foreign Affairs*, March/April, pp.” pp. 78-81.

²⁴ Robert Keohane (1989): *International Institutions and State Power: Essays in International Relations Theory*, (Westview Press: London), pp. 4-5.

²⁵ Stephen D. Krasner, “Structural Causes and Regime Consequences: Regimes as Intervening Variables”, in Stephen D. Krasner (eds.) (1983): *International Regimes*, (New York: Cornell University Press), pp. 2-3.

“Integration”, however, is much broader and encompasses “cooperation” as one of the aspects for explaining the merging of different entities.

The concept of cooperation itself is nevertheless defined differently dependent on the gains actors expect from it. In this study, the definition of *cooperation* will follow a rationalist definition insofar as it will be used as *an egoist-driven mutual effort of at least two states aimed at increasing one’s benefits so far as assumed gains of the other side do not exceed it.*²⁶

Finally, I delineate the concept of cooperation into “bilateral” and “multilateral” formats. Under “bilateral” cooperation I understand relations between two actors in which contacts are being carried out solely on a face-to-face basis. This implies that the concept takes no account of the contacts in which third parties are directly or indirectly included in the talks. In contrast, “multilateral” cooperation between the states is understood to take place in a forum or under the aegis of a collective treaty where other actors are granted equal rights and long-time assurances.²⁷ Under “multilateral” cooperation one can likewise subsume the impact of joint institutions, rules and norms underpinning the actors’ participation in a regime, organization or community of states. In this study, however, I analyze the instrumental aspect of multilateralism under the constellations of state interests, that is, in terms of cooperation possibilities. Taking the multilateralism for means rather than a goal of cooperation, I narrow multilateralism to a pattern of interactions in which state interests shape the main processes.

²⁶ Joseph Grieco (1988): “Anarchy and the Limits of cooperation: a Realist Critique of the Newest Liberal Institutionalism”, *International Organization*, 42(3), pp. 485-507.

²⁷ John G. Ruggie (1992): “Multilateralism: An Anatomy of an Institution”, *International Organization*, 46(3), pp. 569-574.

1.2 Operationalization of Variables

To measure the independent variable, that is the Chinese bilateral energy approach, I will look at outcomes of energy talks held between the Chinese and Kazakh senior officials during bilateral summits. On the other hand, the dependent variable is to be measured by the energy negotiations pertaining to or during the SCO meetings. In relation to both variables, the focus is placed on outcomes succeeding the political dealings between the two sides taking place on each level, respectively. Since it is often hard to delineate between the two approaches as the SCO level might assume a sort of bilateral negotiations, this thesis will consider all the talks held on the SCO basis to pertain to the explanation of the dependent variable.

As indicator of shift toward greater emphasis on China's SCO approach (dependent variable) I look at the statements by Chinese officials about the energy cooperation within the SCO, and at agreements on oil supply and the establishment of coordinating bodies for petroleum-related issues. In addition, the change within the bilateral approach (independent variable) is indicated with encountered obstacles during the purchase of oil fields and companies in Kazakhstan, as well as in relation to oil supply by Russian companies to the Atyrau-Alashankou pipeline. The first intervening variable (Astana's obstacles) is inferred by the increase in awareness of the Kazakh government coupled with the statements of incumbents about the need to restrain Chinese companies' participation in energy projects. Finally, the second intervening variable (Russia as spoiler) is indicative of the activities of Russian oil companies in tackling their Chinese rivals.

1.3 Theoretical Framework: Assessing a Likelihood of Inter-State Cooperation

This thesis begins with an empirical puzzle about the format of Chinese energy cooperation with Kazakhstan and whether there is a relationship between the two levels of its strategy regarding the outcomes. My basic assumption is that China acts as a rational actor and security-seeker keen on achieving its energy objectives through regional cooperation which causes in return a shift in the bilateral approach toward Kazakhstan and Russia. I contend that the purpose of this relationship is designed by Beijing's aim to assure Astana and Moscow about its benign intentions. As a newcomer to the Kazakh oil market, Beijing seeks to avoid any confrontation with Russia over energy resources and thus is willing to take part in the SCO consultative framework. Acting as a regional forum, the SCO provides transparency to Russia and Kazakhstan with regard to Chinese energy activities withholding accomplishment of Beijing's energy security goals. This ambivalence, I argue, would not be possible if China pursued only a bilateral approach, because both Astana and Moscow would conceive their interests to be threatened and find a way to limit Beijing's activities. Therefore, I suggest that China is eager to restrain itself from a more assertive approach in energy cooperation, for the anticipated gains are expected to be higher than potential losses.

This approach fits to a great extent into the defensive realist argument that structural anarchy induces states to restrain from hegemony as the ultimate aim of national policy while striving for an "appropriate level of power".²⁸ Defensive realists suggest the state is eager not to maximize its power because the strategic overstretch may cause other actors to balance against

²⁸ Kenneth N. Waltz (1979): *Theory of International Politics*, (New York: McGraw Hill) pp. 40.

it.²⁹ The balancing coalition may leave the aspiring hegemon less secure or even endanger its survival. As survival is the core goal of every nation, defensive realists argue for incremental increase in relative power through self-restrained behavior.³⁰ This may also include cooperation with other powers through regimes and institutions where the state aims at increasing its relative power.

In particular, if Beijing wants to avoid clashes with Russia over the expansion of its companies into the Kazakh energy sector, a specific strategy of mitigating Russia's concerns needs to be adopted. Instead of pushing solely for bilateral agreements with Astana behind Moscow's back, Beijing is likely to pursue a more balanced approach aimed at *binding* Russia into mutual cooperation. This is not due to Beijing's faith in the possibility of finding the common long-term interests with Kazakhstan and Russia, but rather comes as a rational calculation that invoking Russia's opposition or hostility might bring high costs to Beijing's efforts. At the same time, by introducing Russia into the energy cooperation the Chinese leadership may expect to *induce* Kazakhstan to cooperate without a fear for the future of its "multi-vector" energy policy.

To accomplish the two interlinked goals, China relies not entirely on its bilateral approach. In fact, the scope of a bilateral approach may be inadequate given that Beijing needs to deal with the two actors separately which decreases the overall effect of a binding strategy. A multilateral approach, developed through the SCO appears to facilitate the conditions for cooperation. Although lacking strong institutions that could shape state interests and preferences

²⁹ John Mearsheimer, "Structural Realism", in Tim Dunne (ed.), Milja Kurki and Steve Smith (2007): *International Relations Theories: Disciplines and Diversities*, (Cambridge: Cambridge University Press), pp. 75-78.

³⁰ Kenneth N. Waltz (2000): "Structural Realism after the Cold War", *International Security*, 25(1), pp. 5-41.

regarding the energy security, as neoliberals would expect, the SCO serves as a forum for China to decrease the prospects of a future confrontation with Russia over Kazakhstan's energy assets. As Seth G. Jones argues "the fear of future conflict may create a strong impetus for multilateral cooperation because the costs of security competition can become exorbitantly high for states".³¹

On the other hand, offensive realism would argue that Beijing's aim is to maximize its power by expanding into Kazakhstan with hegemony as the ultimate goal.³² Offensive realists reject the state's reluctance to maximize power in fear of balancing by other actors as suggested by defensive neorealism, because most states tend to buck-pass rather than join a balancing coalition. They claim that states are constantly looking for space to expand at the expense of their rivals either to be secured or to achieve other values that power is believed to bring.³³ The reasoning is that the more power state acquires, the less is the probability to be bullied by others given that weaker actors are uneager to confront. For this reason, the cooperation is unlikely as most states are keen on risking war to expand or pursue strategies that are incompatible with others.³⁴

While my argument supports the offensive neorealist claim about the states' power-seeking behavior, I nevertheless argue that China seems reluctant to exacerbate the tensions with Russia by pursuing hegemony. After all, energy security is interlinked with national security and commits states to survive. China behaves as a reluctant power unwilling to and incapable of pursuing a regional hegemony striving instead to secure sufficient energy for its needs. The SCO

³¹ Seth G. Jones (2007): *The Rise of European Security Cooperation*, (Cambridge: Cambridge University Press), pp. 34.

³² John Mearsheimer (2001): *The Tragedy of Great Power Politics*, (New York: W. W. Norton), pp. 46.

³³ *Ibid.*

³⁴ Robert Jervis (1999): "Realism, Neoliberalism and Cooperation", *International Security*, 24(1), pp. 48-49.

framework stands for the institution through which China restrains its energy-driven power by avoiding the balancing and conflict with Russia and Kazakhstan alike. Chinese leadership is eager to cooperate despite constraining effects upon its behavior because of the exceedingly high costs the intense competition may bring to Beijing as a relative latecomer to the Kazakh energy sector. On the other hand, Russia may perceive cooperation as most welcome in terms of preserving the influence while hoping to restrain the Chinese growing power, whereas the Kazakh leadership may prefer dealing with Beijing on a basis open to other states to gain certain leverage.

Beijing's eagerness to use the SCO in tackling the energy issues can be to a certain extent understood through the logic of neoliberalism. While admitting that the anarchic feature of the system stimulates countries to act in accordance with the struggle-for-power logic, the neoliberal paradigm draws on a slightly different conclusion regarding the prospects for cooperation and stability. Namely, interstate relations are understood through interest-driven cooperation based on constellations of interests which are irreducible to configurations of power, and fostered by expectations of limiting the impacts of anarchy through confidence-building and assurance.³⁵ This is made possible through the establishment of institutions which are thought to grant equal treatment to all parties, diminish cheating probability and lower the trade-offs.³⁶ Not only states utilize institutions for their ends, but further institutions shape actors' interests and preferences making the cooperation possible.³⁷ Consequently, the prospects of future conflicts are mitigated

³⁵ Andreas Hasenclever, Peter Mayer and Michael Zürn (2000): *Theories of International Regimes* (Cambridge: Cambridge University Press), pp. 26.

³⁶ Keohane, *op. cit.*

³⁷ *Ibid*, pp. 26-27.

through cooperation, because every actor is to a certain extent satisfied with the spoils of mutual cooperation.

All three sides have identified common interests regarding oil as the key asset which induces them to cooperate. In doing so, China may opt for a multilateral approach to maximize the absolute gains restraining itself for the sake of cooperation. Consequently, although fledgling for the moment the SCO institutions are set to affect its members leading to the reshaping of Chinese interests and preferences. This view is, however, hardly applicable to this case for two reasons. First, acting as egoist actors of energy security states are not only interested in maximizing their gains but also in how the assets are divided. Russia will be more concerned with the extent of China's share in the Kazakh energy market than with the possible benefits particularly if Beijing's leverage over Astana is increasing. Second, the SCO institutions may not serve as a platform to increase gains from the mutual cooperation, but "because national leaders want them to have binding effects".³⁸ In other words, rather than setting grounds for a mutually profitable partnership in which autonomous institutions are intentionally created to facilitate cooperation China aims at entangling both Kazakhstan and Russia into cooperation for its own ends.

In conclusion, I argue that the purpose of binding states into an organization is to assure other participants of benign intentions so as to avoid counter-balancing, while increasing power relative to the involved actors. Thus I herein suggest that the Chinese strategy is of a dual nature: the input of the SCO restraining Beijing's strategy aims at assuring both Kazakhstan and Russia, while providing Beijing with the way to secure a stable and relatively invulnerable access to oil.

³⁸ Robert Jervis (1985): "From Balance to Concert: A Study of International Security Cooperation", *World Politics*, 38(1), pp. 57.

1.4 Methodology

The thesis adopts the inductive logic of inquiry to explain the reasons behind Beijing's pursuit of energy security through the SCO and the relationship between Chinese multilateral approach towards energy cooperation with Kazakhstan and Russia and its bilateral strategy. This will be achieved through the three causal explanatory case studies based on Chinese activities surrounding the major Sino-Kazakh oil project, the Atyrau-Alashankou pipeline. The first case study focuses on Sino-Kazakh energy deals on oil fields and the Atyrau-Alashankou pipeline. It indicates that Kazakhstan and Russia are becoming more reluctant to Chinese bilateral acquisitions calling for the SCO vector. The second case study focuses on Sino-Russian energy relations regarding the competition over Kazakh oil. I will show that Beijing's bilateral energy approach spurs energy competition with Russia, which China tries to avoid by dedicating more attention to cooperation within the SCO. The third case study traces the emergence of the SCO axis in China's strive for energy security in Kazakhstan as a consequence of the pitfalls in the bilateral oil dealings.

This single unit diachronically based case study takes China, herein understood as a rational unitary actor with exogenous preferences and identity, for the main unit of analysis. Although ideational factors play a considerable role in explaining the behavior of states in the international system, by dealing with material assets such as energy, this study may give better answers using the rationalist epistemology.

In terms of data, both primary and secondary sources are used. Official Chinese government documents including policy recommendations, strategies, public speeches, announcements and statistical data are taken into account. In addition, the Charter of the SCO,

conventions, and joint declarations will be assessed. As for secondary sources, the study will use findings from academic articles and conference papers, field reports, think-tank analysis and news available online.

The data will be analyzed using the process tracing method. Methodologically, process tracing provides the causal chain and causal mechanism between the independent variable and the outcome of the dependent variable to limit the number of potential causes in an empirical or theoretical problem.³⁹ In particular, process tracing is advantageous in introducing the impact of intervening variables upon the observed process which narrows the list of potential causes.⁴⁰ Using the macro-level of analysis (state as unitary actors) I intend to establish the link between the Chinese bilateral and the SCO-driven energy approach. With process tracing I trace events pertaining to the dependent variable (outcome) in order to make inferences about the relationship between the two Chinese approaches. In doing so, I map the empirical process to analyze the extent to which the Chinese interactions with both Kazakhstan and Russia correspond with existing theoretical expectations about interstate cooperation. Finally, I examine the influence of the intervening variables on the process by making causal inferences about the relationship between the independent and dependent variables.

As Checkel points out, process tracing has its good and bad sides. The method is fruitful in examining interactions, yet it is time-consuming and requires a significant amount of data.⁴¹ In addition, process tracing makes intermediate inferences between the independent and dependent

³⁹ Alexander George and Andrew Bennett (2005): *Case Study and Theory Development in the Social Sciences*, (Cambridge MA: Belfer Center for Science and International Affairs), pp. 206-207.

⁴⁰ *Ibid.*

⁴¹ Jeffrey Checkel, "Process Tracing", in Audies Klotz (ed.) and Deepa Prakash (2008): *Qualitative Methods in International Relations: A Pluralist Guide*, (New York: Palgrave MacMillan), pp. 114-127.

variables based on alternative arguments rather than on the most favored theoretically derived explanation.⁴² However, the primary focus on interactions tends to blur the general context in which the process occurs. Finally, while the method is useful for a researcher to contemplate different causal links that intermediate between the independent and dependent variables, outcomes are seldom marked with contingency, and may point to various causal mechanisms simultaneously interacting.⁴³

⁴² *Ibid.*

⁴³ *Ibid.*

CHAPTER 2: CHINESE OIL DEALINGS IN KAZAKHSTAN, RUSSIA AND THE PITFALLS OF THE BILATERAL APPROACH

To fight and conquer in all our battles is not supreme excellence; supreme excellence consists in breaking enemy's resistance without fighting.

Sun Tzu, "The Art of War"

2.1 Background

In the following chapter I discuss the background of Chinese energy engagement with Kazakhstan from 1997 to 2006 by considering events surrounding the bilateral agreements on exploitation of oil fields and the construction of the Atyrau-Alashankou pipeline. My aim is to present how changes in the Chinese bilateral approach (independent variable) were affected by the Kazakh awareness and Russian leverage (intervening variables). In doing so, I herein show why Beijing's bilateral strategy of securing Kazakh oil alone became vulnerable to pressures from Astana and the Kremlin, which helps me then to trace Chinese increasing involvement in energy cooperation within the SCO framework (dependent variable). It will be shown that, despite a relatively successful bilateral approach to energy cooperation with Astana, Beijing came across significant obstacles to its further energy expansion in the Caspian with regard to both Kazakhstan and Russia.

In particular, the Kazakh authorities, fueled by increasing sinophobia among the public and elites, started reconsidering existing oil arrangements and even forced Chinese companies to transfer certain shares in a joint-venture to a Kazakh state-owned petroleum firm. In addition, Russian companies such as Lukoil became increasingly aware that Chinese energy expansion may jeopardize their monopoly over Kazakh oil. The Chinese purchase of Kazakh oil fields,

which considerably contributed to the construction of the Atyaru-Alashankou pipeline, the first oil pipeline running from Kazakhstan to China circumventing Russia and the major project underpinning all Chinese investments in the Kazakh oil sector, raised a concern among Russian state-backed oil companies. The construction of the Kazakh-Chinese oil pipeline might negate Moscow's dominant control over Kazakh petroleum through the establishment of an alternative route to the East. In strategic terms, this would enhance Astana's multi-vector energy policy while decreasing Moscow's leverage over Kazakhstan. Consequently, petroleum companies backed by the Kremlin entered a competition with their Chinese counterparts, which in the case of the PetroKazakhstan purchase developed into a legal dispute between the Chinese National Petroleum Corporation (CNPC) and Lukoil.

This would pose no novelty in the competing arena over hydrocarbon resources if these two actors were not interlinked with their respective governments. In particular, both firms are integral actors of wider national security policies which rely on national champions in making acquisitions in the Kazakh oil market. Although Russian and Chinese petroleum corporations are not a mere instrument in the government's hands, the top places in the companies' hierarchy are frequently filled with state bureaucrats. Therefore, the search for energy security is not only by competition between different corporatist interests, but likewise involves a macro-level where states cooperate or compete with each other.

Whether cooperation or competition will prevail in China's bilateral strive for energy security in Kazakhstan is differently contemplated by the IR theories. Both offensive and defensive neorealism posit that, due to the relative gains logic underpinning state's behavior, it is likely that the Chinese bilateral oil dealings will encounter difficulties in establishing fruitful

energy cooperation with both Kazakhstan and Russia. Thus, stable energy cooperation on a bilateral basis is hardly achievable given that both Moscow and Astana will be more attentive to the gains Beijing acquires from the arrangement. The medicine for Beijing's position is to maintain the expansion into the Kazakh oil sector with a preponderance or hegemony as the final goal, offensive realism would claim, even though this might be a hazardous attempt as it may provoke counter-balancing by Russia and Kazakhstan and thwart Chinese effort to obtain power as defensive realism suggests. Consequently, defensive realism would argue that Beijing, acting as a security-seeker, might accept temporary restraints to its energy expansion with a projection of exceedingly higher gains in the future. A loose arrangement in terms of a common forum might serve as a binding strategy that would disable the prospects for counter-balancing China. Neoliberalism would even suggest Beijing will turn to regimes and institutions to decrease the costs of cooperation while increasing trust among Russia and Kazakhstan. Yet, Beijing seems unwilling to commit itself to binding rules that would permanently restrain its behavior.

In sum, in this chapter I present Chinese involvement in the Kazakh oil market to depict the political consequences for the macro-level of energy interactions between China, and Kazakhstan and Russia. Herein, I present two case studies: first, Chinese penetration into the Kazakh oil market along with bilateral deals pertaining to the construction of the Kazakh-Chinese pipeline from 1997 to 2006; second, the Sino-Russian competition over PetroKazakhstan in 2005.

2.2 “Rising Dragon” Engages “Snow Leopard”: Chinese Bilateral Energy Approach to Kazakhstan

Although China was among the first countries to recognize Kazakhstan's independence in January 1992, the formation of political relations had to wait for almost two years.⁴⁴ Against the offensive neorealist expectations that Beijing would maximize its gains by filling in the regional power vacuum immediately after the collapse of the USSR, China demonstrated reluctance to promptly expand its political influence into Kazakhstan. Beijing's "wait-and-see" strategy may be caused by Chinese perceptions of Russia as the most influential power in Central Asia. On the one hand, Chinese officials were aware that strong linkages between Russia and Kazakhstan could not be tackled with aggressive foreign policy; on the other, improved relations with the Kremlin were imperative for Beijing after decades of hostility. In both cases, securing a friendly environment to continue economic growth and achieve internal political stability represents the core of the Chinese post-1989 foreign policy toward Russia and Central Asia. If China had pursued a more assertive policy toward Kazakhstan immediately after independence, it would have given Russia a good reason to worry about Beijing's intentions and perhaps balance against Chinese power together with the Central Asian states. In this scenario, Beijing would lose a unique chance to gain access to the Caspian basin which had been safeguarded by Russia for decades. This appears to back the defensive neorealist hypothesis that the structural incentives induce states to act as security-seekers.

Other authors, similarly, point out that Beijing was uncertain whether newly independent Kazakhstan, with a predominant Muslim population, would support the Uyghur separatist

⁴⁴ "Brief Introduction to Relations between China and Kazakhstan", *Xinhua*, May 21, 2005, source: http://news.xinhuanet.com/english/2003-05/21/content_879991.htm (24/04/2010).

activities in the Chinese province of Xinjiang.⁴⁵ During the Soviet times, Kazakhstan represented a safe resort for Uyghur separatist groups and organizations, and a launching pad for Soviet propaganda attacks against the Chinese authority in Xinjiang. Due to this, China's eastern frontier was highly militarized with no economic, cultural and political relations with Central Asia.

Notwithstanding the independence of the Central Asian countries, Beijing worried that Kazakhstan's nation-building might trigger nationalist sentiments toward the Uyghur issue leading to renewed tensions with China. Despite the popular animosity toward Chinese intentions, Kazakhstan's President, Nursultan Nazarbayev, and his close associates understood that the rising Chinese economy may be complimentary to Kazakhstan's raw materials exporting economy providing a genuine opportunity for expanding trade and interstate cooperation.⁴⁶ In return, normalization and gradual development of economic and political relations with Beijing would boost Astana's multi-vector policy of seeking equidistance with major powers whilst acting as an independent regional actor.⁴⁷ A passive foreign policy toward China would more closely bind Kazakhstan's economy to Russia making it more vulnerable to Moscow's political leverage. Using the abundant oil resources to attract the growing Chinese economy would grant Astana a more nuanced approach toward both of its powerful neighbors. As President Nazarbayev stressed, "only a large quantity of sovereign export routes can prevent our

⁴⁵ Xuanli Liao, *op. cit.*, pp. 40-41.

⁴⁶ Ariel Cohen (2008): "Kazakhstan: the Road to Independence", *Silk Road Studies Paper*, (Stockholm: Central Asia-Caucasus Institute), pp. 91.

⁴⁷ Martha Brill Olcott, "Is China A Reliable Stakeholder in Central Asia?", Testimony before the U.S.-China Economic and Security Review Commission, August 4, 2006, source: <http://www.carnegieendowment.org/files/MBO0806.pdf> (25/04/2010).

dependence on a single neighbor as well as monopoly pricing dependence on a single consumer.”⁴⁸

Despite initial reluctance, Beijing’s mounting “thirst for energy” became the driving force behind the Chinese rising energy engagement with Kazakhstan. As of 1993 when China became dependent on oil imports, the struggle to maintain an economic impetus prioritized establishment of close political links with oil-rich countries.⁴⁹ Embarking on extensive bilateral oil diplomacy, Beijing substantiated its first acquisition in the Kazakh hydrocarbon sector in 1997 when the CNPC bought 60.3 per cent of the shares in the Kazakh state-owned oil company Aktyubemunaigaz. In addition, Beijing acquired a twenty-year license to exploit the Kenkyak oil field and the Zhanazhol gas field located in the same region. Finally, the Chinese corporation gained a special right to exploit the Aktyubinsk drilling site, and the Uzen oil field, the then second largest petroleum site in Kazakhstan.

Beijing’s inroad into the Caspian was unexpected as well as triumphant: the CNPC’s first investment in the Kazakh oil industry granted China control over the then fourth largest oil company in Kazakhstan while outbidding the western petroleum corporations (Amoco and Texaco) and the Russian Yuzhnimost.⁵⁰ Yet, in order to enter the Kazakh oil sector, Beijing was obliged to pay a high price to win Astana’s favor, a scenario that will repeatedly burden the Chinese bilateral energy approach toward Kazakhstan. In particular, Beijing pledged to invest more than US \$4 billion, return company’s debts, financially take care of 5,000 workers, and

⁴⁸ Nursultan Nazarbayev (1997): *Strategy ‘Kazakhstan-2030’: Prosperity, Security and ever Growing Welfare of All the Kazakhs*, source: <http://portal.mfa.kz/portal/page/portal/mfa/en/content/reference/strategy2030> (25/04/2010).

⁴⁹ Dru C. Gladney, “China’s Interests in Central Asia”, in Robert Ebel (eds.) and Rajan Menor (2000): *Energy and Conflict in Central Asia and the Caucasus*, (Lanham: Rowman and Littlefield Publishers), pp. 215.

⁵⁰ Erica Strecker Downs (2000): *China’s Quest for Energy Security*, (Santa Monica: RAND), pp. 15-16.

above all transfer a certain amount of shares to KazMunaiGaz, the Kazakh-state owned company.⁵¹ Even though the CNPC took over the entire company in 2003, these arrangements suggest that Beijing had from the very beginning to pay attention to Astana's multi-vector energy policy marked with reluctance toward the growing influence of any major power in Kazakhstan's energy sector. If Beijing wanted to avoid being balanced against, it had to accept Astana's demands whilst maximizing gains through carefully choosing which oil assets to acquire. Furthermore, the restraint on a pursuing assertive bilateral energy approach was exacerbated by China's late-comer position in the Kazakh oil sector. Unlike the western oil consortia and Russian companies who already held a grip on the largest oil fields, such as Tengiz, China had no choice but to invest in smaller petroleum sites. In fact, China had to play in accord with a particular logic of seizing oil fields and Kazakh oil firms located in the region where the anticipated Kazakh-Chinese oil pipeline would pass.

The 3,088 kilometers long Atyrau-Alashankou land-based oil pipeline, a major Chinese investment in Kazakhstan's hydrocarbon sector, was brokered the same year by Kazakhstan's President Nazarbayev and Chinese Prime Minister Li Peng, who agreed on the CNPC takeover of Aktyubemunaigaz.⁵² The pipeline stretching from the Caspian shores near the Kazakh town of Atyrau through the entire country to Xinjiang was expected to transport 10-20 billion tons of oil annually when completed in 2005. The project stalled, however, in 1999-2000 when the oil production level in Uzen field owned by the CNPC alone came out to be insufficient to fill in the

⁵¹ K. Esimova (2005): "Kazakhstan-Chinese Cooperation in the Energy Sphere," *Central Asia and the Caucasus*, 35(1), pp. 146-152.

⁵² The interstate agreement was signed in Beijing, September 24, 1997.

pipeline. Likewise, the then low petroleum world price made the construction of the pipeline unprofitable, and Beijing postponed the realization of the agreement.

Meanwhile, Beijing unsuccessfully wooed Moscow into energy cooperation by agreeing on the construction of a pipeline from Russia's Southern Siberia to Daqing, known as Angarsk-Daqing pipeline. The agreement was not implemented due to Russian fears of becoming excessively dependent on China for oil exports. Simultaneously, the discovery of the world's largest oil field since 1968 in the Kazakh zone of the Caspian, the Kashagan oil site, put the Atyrau-Alashankou pipeline back on the negotiating table amid Chinese souring oil demand. Formally, talks regarding the project were revived after the Kazakh foreign minister Tokayev traveled to China to attend the SCO 2002 summit.⁵³ By the spring of 2003, the CNPC and KazMunaiGaz, jointly constructed the first, westernmost section of the oil pipeline, stretching 448 km from Atyrau to Kenkiyak in Kazakhstan.⁵⁴ The second, easternmost section of the pipeline, running 988km from Atasu in Kazakhstan to Alashankou at the Chinese border, was finished by the end of 2005 and became operative in May 2006.⁵⁵ The third part, which connects the two sections into a fully-fledged pipeline running from the Caspian to China, was completed on July 11, 2009.⁵⁶ For the time being, around 200,000 bbl/d of crude oil is being transported through the existing two sections of the pipeline. Once the link between Kenkiyak and Kumkol is established, connecting two existing sections of the pipeline, the oil outflow is expected to

⁵³ "Oil-rich US Ally Kazakhstan Looks to China", *Asia Times*, February 27, 2004, source: http://www.atimes.com/atimes/Central_Asia/FB27Ag01.html (26/04/2010).

⁵⁴ "Sino-Kazakhstan Oil Pipeline Construction to Start Second Stage This Year: Kazak PM", *Xinhua News Agency*, March 3, 2004, source: <http://www.china.org.cn/english/international/89110.htm> (26/04/2010).

⁵⁵ "Kazakhstan Oil Piped into China", *Xinhua News Agency*, May 25, 2006, source: http://news.xinhuanet.com/english/2006-05/25/content_4597314.htm (26/04/2010).

⁵⁶ "Kenkiyak-Kumkol Section of Kazakhstan-China Oil Pipeline Becomes Operational", source: http://www.cnpc.com.cn/en/press/newsreleases/Kenkiyak_Kumkol_section_of_Kazakhstan-China_Oil_Pipeline_becomes_operational.htm (26/04/2010).

double.⁵⁷ This would account for approximately 8 per cent of China's current oil needs. Thus it represents a single major project in the region granting Beijing relatively stable and reliable oil source.

To make the pipeline fully operative, however, Beijing had to acquire additional oil fields connecting them to the pipeline, take over a major company owning these fields, PetroKazakhstan, and obtain the oil from Russian refineries. This required a more assertive bilateral approach and increased competition with other foreign actors in Kazakhstan. In 2003, Beijing failed to take part in the exploitation of Kashagan, a giant Kazakh oil field discovered in 2002, despite backing from Astana.⁵⁸ Being unable to claim access to the greatest oil well in Kazakhstan, Chinese oil corporations decided to invest in onshore and offshore fields in order to reinforce oil necessary for filling in the Sino-Kazakh pipeline. In August 2003, the CNPC repurchased 35 per cent of shares in the North Buzachi field in Mangistau region from a Saudi petroleum company, and in October became the sole owner of the site with crude oil reserves estimated between 35 and 65 million tons.⁵⁹ In the same year, Chinese state enterprise Sinopec took over the assets of an American petroleum corporation to acquire several oil fields in west Kazakhstan among which the Adai site, with estimated 100 million tons of crude oil reserves, and Sazankurak oil site producing more than 200,000 tons of oil annually accounted for the greatest prize.⁶⁰ Together with the major Kazakh state-owned firm, KazMunaiGaz, a Chinese oil

⁵⁷ US Energy Information Administration, source: <http://www.eia.doe.gov/cabs/China/Oil.html> (26/04/2010).

⁵⁸ In 2003, China was left empty-handed in an attempt at gaining a foothold in Kazakhstan's major onshore oil site, Kashagan, as an offer by the CNPC and Sinopec to buy shares of the British Gas, participating in the western consortium in charge of exploration and exploitation of the field, was vetoed by other members.

⁵⁹ "CNPC in Kazakhstan", *Official website of the CNPC*, source: <http://www.cnpc.com.cn/eng/cnpcworldwide/euro-asia/Kazakhstan/> (04/05/2010).

⁶⁰ Maria Yakovleva, "China Thirsts for Kazakh Oil", *Russian Petroleum Investor*, June 27, 2005, source: http://www.wtexecutive.com/cms/content.jsp?id=com.tms.cms.article.Article_rpi_article_1 (02/05/2010).

corporation entered in 2005 the exploitation agreement in the Darkhan oil site.⁶¹ Finally, in December 2006 the China International Trust and Investment Company (CITIC) acquired the right over the Karazhanbas field endowed with 340 million bbl. To mitigate growing concerns of the Kazakh state over mounting Chinese energy expansion, the company transferred half of the shares to KazMunaiGaz, and made a commitment to build a new refinery near the oil site which would increase the overall production level.⁶²

The most valuable petroleum acquisition a Chinese company has ever undertaken under the aegis of Beijing' worldwide pursuit for securing stable and diversified oil routes, was thought to be a stepping stone for future Chinese expansion in the Caspian. In August 2005, the CNPC outbid an Indian oil company to become the owner of Canada-based PetroKazakhstan, the second largest oil company operating in Kazakhstan holding 10 per cent of the country's oil production with 10 respective oil sites in its property and the Shymkent refinery, the most modern and biggest of Kazakhstan's three oil-processing facilities.⁶³ In particular, the company is engaged in two major oil fields, Kumkol South, as sole owner, and Kumkol North through half-ownership, which are located in the core of the Kumkol-Kenkyak branch connecting the two most remote parts of the Sino-Kazakh pipeline. This takeover will bolster China's control over the Atyrau-Alashankou pipeline and facilitate its construction granting Beijing nearly half of the oil required for the pipeline.⁶⁴ As Mark McCafferty, a Central Asian analyst plainly pointed out

⁶¹ "KazMunaiGaz and CNPC to jointly develop Darkhan field", *Interfax Information Services*, source: <http://www.gasandoil.com/goc/company/cnc54300.htm> (02/05/2010).

⁶² "KazMunaiGaz to shell out half of Citic Group's assets", *AFX News Limited*, October 3, 2007, source: <http://www.gasandoil.com/goc/company/cnc74393.htm> (02/05/2010).

⁶³ "China's Kazakh Prize: the Expert Opinion", *Asia Times*, August 25, 2005, source: <http://www.atimes.com/atimes/China/GH25Ad01.html> (02/05/2010).

⁶⁴ *Ibid.*

Certainly from the Chinese side, and specifically the CNPC, it's a very important acquisition, because it's given them quite a sizeable amount of production and reserves in Kazakhstan, and specifically central Kazakhstan. And that's important because they're in the process of building a pipeline in the eastern part of Kazakhstan to China just now, and previously there were big concerns about where the oil was going to come from to fill CNPC's pipeline. They've now secured production through this acquisition of PetroKazakhstan.⁶⁵

Most importantly, owning PetroKazakhstan will guarantee Beijing a secure and stable supply of petroleum to Xinjiang, and set up a basis for future takeovers in Kazakhstan. Politically, this would inevitably increase Beijing's political influence and expand its security engagement in Central Asia diminishing US power while balancing Moscow.⁶⁶

However, the main dilemma of this acquisition was how Astana will react to shifting distribution of power to maintain a balanced energy policy toward Russia and China. Despite Astana's support for the emerging Chinese vector in its energy policy, the case of PetroKazakhstan put to a test the previous tolerance toward Beijing's energy expansion. Ironically, one of the largest investments in the Kazakh oil industry had Astana restrain Chinese activities. Driven by a need to protect what was believed to represent Kazakhstan's multi-vector energy security policy, the country's leadership feared Beijing's increasingly assertive behavior and perceived PetroKazakhstan to be the peak of a lingering Chinese threat to Astana's independence as an international actor. Although PetroKazakhstan did not endow Beijing with the influence as western corporations or as Russia hold in the Kazakh hydrocarbon sector, Astana promptly reacted to counter-balance Chinese influence. Before the CNPC moved to purchase PetroKazakhstan shares, Astana decided to compel it to cooperate with the state.

⁶⁵ "Kazakhstan/China: Oil Deal Marks Beijing's 1st Foreign Energy Takeover", *EurasiaNet*, source: <http://www.eurasianet.org/departments/business/articles/pp082305.shtml> (02/05/2010).

⁶⁶ Hooman Peimani, "China's Acquisition of PetroKazakhstan: a Blessing or a Curse?", *Central Asia-Caucasus Analyst*, September 7, 2005, source: <http://www.cacianalyst.org/?q=node/3367> (02/05/2010).

The core of this move was addressed in an announcement by the Kazakh energy and mineral resource minister Vladimir Shkolnik after the CNPC placed the bid for the company:

In any case, strategic control will stay within the country. This is a very serious issue; we're talking here about a strategic enterprise, upon which a huge southern region of our country is dependent. I believe that in any case Kazakhstan should have a part of any strategically important project and influence all the decisions taken with regard to these oilfields, and also to Shymkent refinery. I'll struggle for that as long as I can.⁶⁷

The Minister's words echoed the Kazakh's leadership enduring concerns over the Chinese control of the Shymkent refinery, which is processing more than 40 per cent of Kazakhstan's oil.⁶⁸ Granting the CNPC *la carte blanche* in PetroKazakhstan's acquisition would imply a monopolistic position of the Chinese company, and would endanger country's energy security.⁶⁹ With the ambition of preserving an independent actor status, the Kazakh leadership could not afford to have its multi-vector energy policy closely bound to any major power, as energy dependence on China would cause a decline in Kazakh power. For this reason, the government proposed a bill to the Mazhilis, which President Nazarbayev immediately turned into law aimed "not to admit a threat to the interests of national security during sales or transfers of the right to develop resources ... and to establish the state's pre-emption right".⁷⁰ This move was directed against the CNPC acquisition with the intention of obtaining control part for the Kazakh state in PetroKazakhstan while limiting the Chinese grip over the company's assets.

⁶⁷ "Kazakhs Seek 'Strategic Control' Over PetroKaz", *Central Asia and the Caucasus Analyst*, October 4, 2005, source: <http://cacianalyst.org/?q=node/3474> (02/05/2010).

⁶⁸ Official Website of the CNPC, source: <http://www.cnpc.com.cn/en/aboutcnpc/ourbusinesses/refiningchemicals/> (02/05/2010).

⁶⁹ "Kazakhstan Warns of 'Collision' Over PetroKaz Sale", *China Daily*, October 13, 2005, source: http://www.chinadaily.com.cn/english/doc/2005-10/13/content_484643.htm (02/05/2010).

⁷⁰ "Astana 'Poised to Block Oil Sales'", *Upstream News*, October 5, 2005, source: <http://www.upstreamonline.com/live/article99591.ece> (02/05/2010).

Finally, China had to pay dearly for acquiring PetroKazakhstan. After the law was enacted, the Kazakh state was granted equal rights for the joint management of the Shymkent refinery, which represented the driving force behind Astana's decision to put pressure on the Chinese company.⁷¹ Moreover, the CNPC and KazMunaiGaz officially signed an agreement under which Beijing acquiesced to transfer 33 per cent of the company's shares to KazMunaiGaz through Turgai Petroleum, a subsidiary company of PetroKazakhstan.⁷² It was likewise believed that Astana tacitly backed Russian Lukoil in claiming the other half of Turgai Petroleum in a dispute between the CNPC and the Russian company.⁷³ This was impeded by a court decision in Lukoil's favor against PetroKazakhstan in a dispute over how to share the oil in a common deposit (South Buzachi).

The case of PetroKazakhstan clearly suggests that Beijing was as interested in cooperation with Kazakhstan as it was eager to establish a missing linkage in the strategic Kazakh-Chinese pipeline. The ambivalence of the pursuit for power and restraint seem to suggest that Beijing was driven by energy security rather than hegemony. For the sake of entering the Kazakh oil sector and acquiring petroleum assets to support the viability of the Kazakh-Chinese pipeline, Beijing was even willing to cede part of its growing power to Astana. As shown, despite temporary losses Beijing accepted all Astana's demands in their cooperation contrary to expectations based on relative gains logic. Even though this example may contradict the rational logic I use for explaining Chinese behavior, the strategy nevertheless pinpoints Beijing's

⁷¹ "CNPC Finalizes PetroKazakhstan Acquisition", *Asia Times*, October 28, 2005, source: http://www.atimes.com/atimes/China_Business/GJ28Cb02.html (27/04/2010).

⁷² "CNPC to Sell 33% of PetroKaz to Kazakhs-PR firm", October 19, 2005, source: http://www.caucas.com/home_eng/depeches_detail_imprim.php?idp=307 (27/04/2010).

⁷³ "China Pays Dearly for Kazakhstan Oil", *New York Times*, March 17, 2006, source: <http://www.nytimes.com/2006/03/17/business/worldbusiness/17kazakh.html> (27/04/2010).

intention to maximize its future gains despite the present losses. In other words, China acted rationally in this case to the extent it anticipated the potentials of acquiring PetroKazakhstan for its long-term energy security goals. Having said this, I do not intend to follow the absolute gains logic proposed by neoliberal institutionalism which argues that states are keen to give up certain gains for future benefits. Beijing was uneager to sacrifice its gains, but it was compelled due to Astana's pressure. Rather I argue that the state acting as security-seeker may take part in energy cooperation with a considerably weaker actor which constrains its power and lowers gains as long as this arrangement prevents balancing coalitions from occurring. In particular, China was apt to concede the burden of cooperation with Astana as long as its future goal of securing Kazakh oil through the stable functioning of the Kazakh-Chinese pipeline was not in peril from external powers. Partnership with Kazakhstan assured that Moscow was kept away while Beijing can utilize the bilateral oil agreements.

The main problem of Chinese bilateral approach, however, rests with the future costs that may become exceedingly high if China continues with an assertive bilateral policy. As a rational actor pursuing energy policy of equidistance to major powers, Astana may be expected to increase the limits posed on Beijing to squeeze as many gains as possible from China's dependence on mutual cooperation. In addition, Beijing's aggressive bilateral approach would risk Astana becoming more suspicious of its intentions and cause closer ties with Moscow by jointly balancing Chinese companies whenever possible. The case of PetroKazakhstan clearly shows this. Finally, to ensure the Atyrau-Alashankou pipeline is entirely operative, Beijing needs oil from Russian refineries as Kumkol and Uzen oil fields alone stand for insufficient sources for the pipeline to be profitable. However, Russia has hitherto attempted to balance Chinese energy

activities related to the Kazakh energy sector. Apparently Moscow is aware that growing Chinese encroachment with Kazakhstan oil riches will decrease its energy leverage over Astana. Thus, the Kremlin uses Russian energy companies to constrain the Chinese bilateral approach. The long-term energy battle between Chinese petroleum corporations and Lukoil in Kazakhstan depicts the second restraint upon Chinese bilateral energy strategy.

2.3 Fighting Under the Rag: Sino-Russian Petroleum Competition in Kazakhstan

Understanding obstacles to Chinese energy encroachment with Kazakhstan remains incomplete if one excludes Russia's influence over the region. For more than two centuries, Moscow has been decisively shaping Kazakhstan's security landscape. Firstly, Russia shares the world's longest border with its southern neighbor (7,000 km); nearly 30 per cent of Kazakhstan's population is comprised of ethnic Russians; tight economic and trade links between the two countries make Russia the far most important economic partner of Astana; Russian is the *lingua franca* in Kazakhstan. Secondly, Kazakhstan is deeply anchored in regional political-security and economic organizations sponsored and led by Moscow such as the Commonwealth of Independent States (CIS), Collective Security Treaty Organization (CSTO) and Eurasian Economic Community (EurAsEC). Thirdly, the lion's share of Kazakh hydrocarbons (80 per cent) is exported via pipelines running through Russian territory. Finally, Russian troops are based in neighboring Kyrgyzstan and nearby Tajikistan. If necessary, Russia is capable of projecting its economic and military power to protect imperiled national interests. The cases of gas shut-off to Ukraine and the war in Georgia support this claim. Kazakhstan's President Nazarbayev is, therefore, aware of his country's heavy dependence on Russia as a security

provider. Due to this, the Kazakh leader never misses an opportunity to stress that “friendly cooperation” and “integration” with Russia is a top most priority for Astana.⁷⁴

China, on the other hand, is aware that accomplishment of energy related objectives in Kazakhstan requires cooperation with Russia. Rather than attempting to breach the close relationship between Moscow and Astana, a task for which China noticeably lacks economic and military power, Beijing is binding Moscow to security cooperation in Central Asia.⁷⁵ Indeed, China and Russia are closely cooperating on key political issues in Central Asia: keeping the regional *status quo* by supporting Central Asian political regimes and balancing against the US military presence. In the energy realm, however, China and Russia are competitors struggling for control over strategic resources to preserve energy security and increase national power.

Consequently, neither Moscow nor Russian companies are willing to share strategic resources with Chinese corporations. Sharing hydrocarbon assets with the Chinese may undermine the monopoly of Russian firms and consequently diminish the role of “energy factor” in Moscow’s foreign policy arsenal. Likewise Russian officials fear that any closer energy cooperation between the two countries will increase Moscow’s dependence on Beijing. Moscow and its petroleum companies displayed not only reluctance to cooperate with China in oil pipeline projects, but balanced against Beijing and its companies whenever possible. In particular, the Russian government blocked a purchase of Slavneft by the CNPC in 2002, terminated Yukos company in 2003 who vigorously supported the Russo-Chinese oil pipeline,

⁷⁴ In his 1997 State-of-the-Nation address to Mazhilis, Nazarbayev underscored the importance of close and friendly relations and “integration” with Russia which was reiterated afterwards in a similar fashion. The “special relations” between Russia and Kazakhstan were inked in a 1998 Declaration of Eternal Friendship and Cooperation for the 21st Century.

⁷⁵ The SCO stands for an obvious example of growing interconnectedness between the two states in political-security, economic and energy sphere.

and abandoned the Angarsk-Daqing pipeline in favor of a rival project subsidized by Japan.⁷⁶ Moscow was, in all, afraid that yielding to Chinese energy demands may limit the Russian geopolitical role to a supplier of raw materials to the Chinese growing regional power—a scenario hardly acceptable to the Russian elite claiming great power status in the international arena.

A major energy battle between Chinese and Russian petroleum corporations in Kazakhstan soared when the CNPC purchased PetroKazakhstan in August 2003. Prior to CNPC's takeover, Lukoil and PetroKazakhstan held a joint-venture, Turgai Petroleum, in the North Kumkol oil field. At that time, the two companies were entangled in a lingering dispute over the financial compensation of oil sales from the jointly operating North Kumkol site.⁷⁷ A few months before the CNPC took over PetroKazakhstan, Lukoil unsuccessfully attempted to buy its partner, mostly due to a lack of support from Astana dismissive of Russia extending its dominant position in the Caspian. Backed by the Kremlin, Lukoil was trying to obtain PetroKazakhstan's valuable assets (particularly the Shymkent refinery) which would grant a petroleum monopoly to the Russian company. Then, in August 2005, came CNPC's triumphant purchase of PetroKazakhstan which spoiled Lukoil's plans. The transaction immediately elicited the reaction of Lukoil, which owned the aforementioned subsidiary with PetroKazakhstan. Since the CNPC announced the takeover, Lukoil appeared before an Alberta court willing to block this transfer claiming a right of pre-emption based on its 50 percent ownership of Turgai Petroleum.⁷⁸ The court dismissed this request, but Lukoil appealed before the Court of Arbitration in

⁷⁶ Stephen Blank, "PetroKaz: China's Difficult Search for Central Asian Energy", *Eurasia Daily Monitor*, November 7, 2005, source: [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=31073](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=31073) (02/05/2010).

⁷⁷ "PetroKazakhstan and LUKoil in Crude Oil Quarrel", *Alexander's Gas and Oil Connections*, January 27, 2005, source: <http://www.gasandoil.com/GOC/company/cnc50476.htm> (30/04/2010).

⁷⁸ "CNPC's Takeover of Petrokaz in Court Limbo", *Business-Times Asia*, October 24, 2005, source: <http://business5-times.asial.com/sg/sub/news/story/0.4574,173474.00.html> (03/05/2010).

Stockholm, which confirmed in 2006 that the Russian company had a right of pre-emption over half of Turgai Petroleum. The CNPC counter-attacked by claiming its pre-emption right over half of the Buzachi field, which Lukoil acquired through the purchase of Nelson Resources, jointly operating with the CNPC in the Caspian. At the end of 2005, Lukoil acquired Nelson Resources for US 2\$ billion securing the control over several fields, some of which are located near Aktobe, the region where the bulk of Chinese oil activities, including the westernmost section of the Kazakh-Chinese pipeline, is concentrated.⁷⁹ The CNPC-Lukoil struggle over PetroKazakhstan shows Russia's strong opposition to Chinese control of the Caspian hydrocarbons.

This example of Sino-Russian strategic competition over Kazakhstan's oil represents only a segment of a more complex picture pertaining to Chinese interests to secure normal functioning of the Atyrau-Alashankou pipeline. The CNPC-Lukoil struggle for the control of PetroKazakhstan is embedded in the context of the Chinese ambitious pursuit of additional petroleum amid a strong Russian opposition to its control of the Caspian petroleum assets. For Moscow, obtaining PetroKazakhstan would imply not only an extension of energy security dominance but it would allow for control over the oil necessary for the Kazakh-Chinese pipeline. As mentioned earlier, PetroKazakhstan controls oil fields where the central part of the pipeline is running, and owns the most modern oil refinery in Kazakhstan. Holding a grip over these assets would heighten Chinese dependence on Russian companies and increase Moscow's relative power. At present, the Kazakh-Chinese pipeline requires a certain amount of petroleum from Russian refineries in the north in order to operate with full capacities. Russia was willing to take

⁷⁹ Official Website of Lukoil Oil Company, September 30, 2005, source: http://www.lukoil.com/press.asp?div_id=1&id=2411&year=2005 (03/05/2010).

part in this endeavor providing the oil from the moment the Atasu-Alashankou section was completed. Yet, Chinese mounting encroachment with Kazakhstan exacerbates Moscow's fears for the future of its influence in Central Asia at large. As indicated above, the Kremlin and its companies are unwilling to provide natural resources that would fuel Chinese economic power. Instead, Russian leadership restrains Chinese activities in Kazakhstan's energy sector using Beijing's reliance on mutual cooperation.

The Kazakh-Chinese oil pipeline, for instance, operates without difficulties only for seven months a year. During winter the crude oil must be mixed with less viscous petroleum derivate in order not to freeze. In addition, for the pipeline to be profitable Russian oil is necessary to fill in a gap in the supply route to China. This oil is provided from Russian refineries in the South Siberia. However, the Russian company Transneft, which is in charge of supplying the Kazakh-Chinese pipeline, delayed delivery of these additives in the winter of 2006, claiming that its own pipeline was already operating at minimum.⁸⁰ As a corollary, CNPC was compelled to transport the additional petroleum by rail from another part of Kazakhstan, which was far more expensive and time-consuming.

2.4 Chinese Bilateral Energy Approach to Kazakhstan: Implications

Using the Kazakh awareness and Russian leverage as intervening variables, I explained the problems facing the Chinese bilateral energy approach to securing access to the Caspian petroleum. Tracking the Chinese emergence as an important player in the Kazakh oil sector, I suggest that assertive bilateral dealings allowed Beijing to capture valuable petroleum fields and

⁸⁰ "China Plays Pipelineistan", *Asia Times*, December 24, 2009, source: http://www.atimes.com/atimes/Central_Asia/KL24Ag07.html (02/05/2010).

companies. China's main energy security goal was the construction and filling of the Atyrau-Alashankou pipeline representing the driving-force behind all Chinese acquisitions in Kazakhstan.

However, as China gradually transformed from a late-comer into an influential actor in the Caspian, acquiescing more and more oil sources, so has the pressure from Kazakhstan and Russia grown to turn into opposition to Beijing's further unchecked expansion. In response, Kazakhstan pressed Chinese companies to re-sell half of their shares in oil companies and sites, and enacted a law giving the state a right of prevention against foreign companies, while Moscow prompted Lukoil to block CNPC's purchase of PetroKazakhstan. Worse yet, in the case of PetroKazakhstan Astana and Moscow joined hands in balancing Chinese activities. They were both concerned that the growing Chinese power will decrease their respective gains.

To mitigate their concerns, I argue that Beijing consequently increased its activities in the SCO framework pertaining to energy related issues so as to bind Astana and Moscow to cooperation. Pursuing bilateral energy approach made the Chinese strategy vulnerable to increased separate or joint balancing by Kazakhstan and Russia. In the following chapter, I trace the SCO emergence as a chain-link in Beijing's energy security related to cooperation with Kazakhstan and Russia alike.

CHAPTER 3: CHINESE ENERGY SECURITY AND THE ROLE OF THE SHANGHAI COOPERATION ORGANIZATION

The Chinese charm you when they want to charm you, and squeeze you when they want to squeeze you, and they do it quite systematically.

A Singaporean Diplomat

3.1 Background

A more substantive Chinese emphasis on political-security and economic cooperation within multilateral frameworks such as ASEAN and the SCO, particularly following the end of the cold war, seems to be generally acknowledged. Constructivism would claim that Beijing's eagerness to discuss international and regional issues on the multilateral level reflects an essential change of strategic culture, that is, norms and values of the community. The evidence suggest, however, that Beijing's diplomatic turnover falls short of socialization into institutional norms and remains wedded to relative power considerations and conditioned on the preservation of national survival.⁸¹ In this sense, the multilateral diplomacy serves Beijing as a convenient way of discouraging other actors from aligning against the "Chinese threat", as well as a counterbalancing measure to major powers (the US, Japan, India and Russia).⁸² Thus, Beijing appears to follow defensive realist behavior accepting the restraints of multilateral frameworks, while pursuing the long-term maximization of gains.

⁸¹ Avery Goldstein (2001): "The Diplomatic Face of China's Grand Strategy", *The China Quarterly*, Nr. 168, pp. 835-864; Hongying Wang (2000): "Multilateralism in Chinese Foreign Policy: The Limits of Socialization", *Asian Survey*, 40(3), pp. 475-491; Marc Lanteigne (2005): *China and International Institutions: Alternate Paths to Global Power*, (London: Routledge), pp. 1-33, 115-143.

⁸² Bates Gill, "China's Evolving Regional Security Strategy", in David Shambaugh (eds.) (2005): *Power Shift: China and Asia's New Dynamics*, (Los Angeles: University of California Press), pp. 252-255.

I argue that the precise logic can be identified in Beijing's energy security strategy pursued within SCO. Chinese willingness to cooperate with Moscow and Astana in the SCO framework stems from the opportunity to avoid being balanced against as predicted by defensive neorealism, than from a will to impose hegemony as offensive neorealism claims. Unlike the purely bilateral energy approach, which is troubled with the possibility of counter-balancing China's moves, SCO allows Beijing to curtail Moscow's and Astana's mounting concerns over Chinese hydrocarbon ambitions in the Caspian. Dealing with China under the auspices of the SCO appears to provide an assurance to the Russian and Kazakh leadership that the rise of the "dragon" can be controlled through joint consultations, and add more transparency to Chinese actions. In the Chinese view, as long as such consultations do not impose a control or limit to its activities the SCO energy cooperation will probably serve its purpose. Chinese support for the establishment of the SCO Energy Club suggests a crux of this view. In addition, binding the two states into a common framework allows Beijing to "soften" its assertive bilateral advance in Kazakhstan and retain effectiveness, as will be shown in the case of the Mangistaumunaigaz purchase. Finally, I argue that the main goal of Chinese engagement within SCO regarding energy issues was to assure the normal functioning of the Atyrau-Alashankou pipeline, hitherto the main project underpinning Beijing's petroleum acquisitions in Kazakhstan.

Assuring the normal operation of the Atyrau-Alashankou pipeline was hardly achievable with only a bilateral approach, as shown in the previous chapter, given that it provoked counter-balancing on the part of Kazakhstan and Russia. In particular, both the Kazakh leadership and the Russian backed company, Lukoil, undermined CNPC's attempt at buying PetroKazakhstan, a firm holding the core oil sites located in the region where the Kazakh-Chinese pipeline runs.

With the SCO axis added to its energy strategy, Beijing gained a maneuvering space to maintain stable energy relations with both Kazakhstan and Russia, decreasing the frequency of fluctuations in energy arrangements. Most importantly, Beijing's new approach not only minimized the chance of counter-balancing alignments formation, but empowered Chinese bilateral activities. This is particularly indicative as of 2009 when Chinese focus on the SCO energy axis reached its peak unleashing the Chinese "loan-for-oil" deals with Kazakhstan and Russia.

In sum, in this chapter I trace the process of Chinese energy strategy shifting toward greater engagement with Kazakhstan and Russia under the aegis of the SCO. By linking the events posing obstacles to Beijing's bilateral energy activities in Kazakhstan with the emerging Chinese SCO involvement, I argue that this shift was caused by the pitfalls of a bilateral energy approach. However, I do not claim that Beijing's greater emphasis on the SCO framework implies its departure from the bilateral energy approach. For the most part, the SCO setting does not account for a separate level of interaction in which the bilateral course is changed or replaced by the multilateral. The SCO energy institutions are fragile and reflect the interests of its members. Rather I suggest that the SCO axis stands for a tactical ground reinforcing Beijing's ability to bilaterally cope with Astana's and Moscow's interests, and thus serves as a complementary force behind Chinese bilateral energy strategy.

3.2 Tracing the Shift: The Development of Beijing's SCO Energy Agenda

In general, the importance of the SCO for China's pursuit for oil rests on securing friendly environment and stable borders for the benefit of interstate trade routes amid the terrorist threat. The bulk of oil routes are to pass through the entire Kazakhstan, ending in the politically

unstable Xinjiang region. If Central Asia is fraught with militant groups and unstable political regimes, Chinese supply routes will easily be imperiled.⁸³ For this reason, China needs protection assurances for the Atyrau-Alashankou pipeline which can be attained through a regional security arrangement such as the SCO. In this sense, particularly since October 2002, Chinese officials have frequently referred to reinforcing energy cooperation as a core tactic for promoting SCO's security objectives. At one SCO meeting, Chinese high-rank official Zeng Peiyan told other members that Beijing's wants to closely cooperate with Russia and Central Asian countries to protect itself against a potential disruption of oil routes.⁸⁴ Consequently, the SCO members set up a Regional Antiterrorist Structure (RATS) in 2004 which coordinates state activities in the fight against terrorist threats, and conducted joint military exercises in 2003, 2005 and 2007 aimed at protecting borders and securing strategic facilities.⁸⁵ Thus, securing stable environment in the region through which petroleum is to be transported via Atyrau-Alashankou pipeline to China represents a noteworthy part in Beijing's SCO energy agenda.

China has been pushing for yet another direction within the SCO—a platform for common arrangements in energy related issues. Since 2004 and the Chinese revival of hydrocarbon activities in Kazakhstan, marked by the beginning of the pipeline construction and the oil fields acquisitions, Beijing intensified SCO energy cooperation. First, during the 2004 SCO summit in Tashkent Beijing entered an action plan that created a basis for cooperation between the organization's three energy-producing states (Russia, Kazakhstan and Uzbekistan) and the three

⁸³ Andre Mommen (2007): "China's Hunger for Oil: The Russian Connection", *Journal of Developing Societies* 23(4), pp. 455.

⁸⁴ "Oil-rich US Ally Kazakhstan Looks to China", *Asia Times*, February 27, 2004, source: http://www.atimes.com/atimes/Central_Asia/FB27Ag01.html (09/05/2010).

⁸⁵ Marc Lanteigne, *China and International Institutions: Alternate Paths to Global Power*, pp. 120-124.

consumer countries (China, Tajikistan and Kyrgyzstan).⁸⁶ This arrangement confirmed the significance of Kazakhstan and Russia as Chinese sources for petroleum, but at the same time it allowed Beijing to pave the road toward more coordinative energy interaction. Second, and indicative of this logic, is Beijing's proposition laid out at the 2004 SCO meeting that the member states should found an energy coordinating group for "experts from member states' energy bureaucracies to consider regional gas and oil pipelines, hydropower projects and other ventures".⁸⁷ In particular, the group was designated to coordinate member states' energy activities allowing Beijing to take part in the implementation of Moscow's pipeline projects in Kazakhstan and eventually make possible a connection with Russian oil sources. Both examples suggest that the Chinese SCO approach seeks to bind Kazakhstan and Russia into cooperation through arrangements on a multilateral basis so that Beijing can squeeze as many gains as possible for its key energy security goal in Kazakhstan, the Atyrau-Alashankou pipeline.

In doing so, China is using the SCO platform to negotiate and conclude energy supply and institutional deals with Kazakhstan, as well as with other members of the organization.⁸⁸ First, the extension of the Atyrau-Alashankou pipeline from Xinjiang to the Chinese eastern provinces was agreed between the Chinese and Kazakh leaders at the 2005 Astana SCO summit. The deal was supposed to acquire Astana's support for additional oil sources to link the two then existing sections of the pipeline with the Chinese industrial centers in the east. Noticeably, the Sino-Kazakh oil agreement came up in July, just one month before the PetroKazakhstan

⁸⁶ "Energy Cooperation and the Shanghai Cooperation Organization: Much Ado about Nothing?", *EurasiaNet*, April 24, 2008, source: <http://www.eurasianet.org/departments/insight/articles/eav042508b.shtml> (09/05/2010).

⁸⁷ "Central Asia Plans Energy Cooperation", *Alexander's Oil and Gas Connections*, February 9, 2006, source: <http://www.gasandoil.com/goc/news/ntc60627.htm> (09/05/2010).

⁸⁸ Apart from petroleum deals, China at the margins of the 2006 SCO meeting brokered an oil and gas arrangement with Uzbekistan, and negotiated investments in the hydroelectric sector with Kyrgyzstan and Tajikistan.

purchase took place, which suggests the gradual emergence of the SCO as an important vector in Chinese oil diplomacy in Kazakhstan. Second, after the problems heated over the PetroKazakhstan purchase in October 2005 and continued up to 2006 causing friction with both the Kazakh leadership and Lukoil, Beijing sought to increase its engagement in the energy related issues through the SCO. The PetroKazakhstan case suggested China should complement a dominantly unilateral and bilateral approach to energy cooperation with Kazakhstan and Russia with a loose multilateral basis so as to avoid the joint counter-balancing.

The apparent way for Beijing to achieve this resided with supporting the creation of institutions to be managed by the members of the organization. Amid the dispute unraveling over PetroKazakhstan, Moscow stepped up with a proposal to create a joint body which would coordinate energy moves between the SCO members. At the June 2006 SCO summit held in Shanghai, the then Russian President Vladimir Putin urged for “energy dialogue, integration of our national energy concepts, and the creation of an energy club”.⁸⁹ The rationale behind this wordy facade was to set up an energy coordination mechanism with which Russia could gain a transparent overview of its partners’ activities.⁹⁰ More specifically, by connecting the producer and importer countries into a joint framework the proposal implicitly aimed at monitoring Chinese activities through joint consultations in the implementation of energy projects in order to avoid clashes such as that surrounding the PetroKazakhstan purchase.⁹¹ During the SCO meeting, Moscow’s proposal of setting up a “unified energy market” for oil and gas exploration,

⁸⁹ “Russia Initiates SCO Energy Club”, *RIA Novosti*, June 21, 2006, source: <http://en.rian.ru/analysis/20060621/49855458.html> (12/05/2010).

⁹⁰ “Energy Club is not an OPEC Clone”, *RIA Novosti*, March 19, 2007, source: <http://en.rian.ru/analysis/20070319/62246008.html> (12/05/2010).

⁹¹ “Russia Urges Formation of Central Asian Energy Club”, *EurasiaNet*, November 6, 2007, source: <http://www.eurasianet.org/departments/insight/articles/eav110707a.shtml> (12/05/2010).

production and shipment through the establishment of a SCO Energy Club gained the support of the member states and particularly diversification-oriented President Nazarbayev.⁹² At the SCO Tashkent summit later that year the Russian project was endorsed in a joint statement issued by the representatives of the member states, and the Energy Club was formed in July, 2007 in Moscow.

Despite some expert concerns that the Russian proposal signified the ambition to form a gas and oil cartel which would cement Moscow's energy monopoly in Kazakhstan and Central Asia,⁹³ Beijing was willing to take part in this project as far as it permitted binding Russia and Kazakhstan into a loose arrangement while preserving a free hand in bilateral energy dealings. China's eagerness to join Moscow's project seems to be driven by a need to secure oil through a stable relationship with the two actors. Although such a project might have posed a restraint to Beijing's ability to act independently in securing access to petroleum, the Chinese leadership was keen not to concede a dominant energy role to Moscow, as this would likewise lead to extended Russian political leverage within the SCO. Beijing was beyond any doubt aware that extending the role of the Energy Club into a full-fledged institution would cause problems to its plan of keeping the energy strategy away from any control by third parties. Yet aware of the need for Kazakh oil China was at the same time eager to engage Kazakhstan and Russia in mutual cooperation while advancing its SCO approach to empower oil dealings with both partners.

However, the Energy Club fell short of growing into a full-fledged institution capable of coordinating member states' national energy policies. As Bolat Nurgaliev, Secretary General of

⁹² "Central Asia: SCO Leaders Focus On Energy, Security, Cooperation", *EurasiaNet*, August 15, 2007, source: <http://www.eurasianet.org/departments/insight/articles/pp081607.shtml> (12/05/2010).

⁹³ Sergei Blagov, "Russia Sees SCO as Potential Energy Cartel", *Eurasia Daily Monitor*, December 5, 2006, source: [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=32294](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=32294) (20/05/2010).

the SCO pointed out, the member states have a “difference of opinion on the issue of how to cooperate with each other within the SCO framework”.⁹⁴ Notwithstanding two years of its existence, the SCO Energy Club did not provide a common legal ground based on which the major energy issues between China, Russia and Kazakhstan could be discussed and resolved. For instance, the filling of the Atyrau-Alashankou pipeline as a major issue underpinning the Chinese engagement with Kazakhstan which involves Russia as well, was not tackled by the Energy Club. The evident absence of trilateral consultations on this issue between the respective parties, and the inability of the Club to move beyond empty rhetoric have opened a space for China to advance its SCO approach as a complementary force behind the bilateral oil dealings.

3.3 Expanding Chinese Oil Activities within the SCO: Binding Moscow and Astana, Complementing the Bilateral Approach

Amid the global economic and financial crisis Beijing is using the SCO mechanism to simultaneously provide loans to both Russia and Kazakhstan to further secure petroleum for the Atyrau-Alashankou pipeline. Under the banner of the SCO platform, Beijing successfully negotiated and concluded two very important oil arrangements with Moscow and Astana. Following increasing energy cooperation within the organization, China employed the SCO meetings to acquire Russian oil for the filling of the Atyrau-Alashankou pipeline, and took over Mangistaumunaigaz, the fourth largest Kazakh state-owned oil company. Noticeably, by reinforcing the bilateral approach with the SCO-based activity Beijing has in both cases achieved

⁹⁴ Mr. Bolat Nurgaliev, Secretary General of the Shanghai Cooperation Organization, *Institute for Strategic Studies and Analysis*, Round Table, February 27, 2009, source: <http://www.idsa.in/event/RTBolat%20Nurgaliev> (14/05/2010).

two goals it failed to do bilaterally only a couple of years ago: it gained the necessary oil to make the Atyrau-Alashankou pipeline profitable.

The first SCO based approach which aimed at securing oil from Russia took place at the 2006 and 2009 SCO summits. After the unsuccessful wooing of Russian oil company Rosneft to provide oil for the Atyrau-Alashankou pipeline during winter, China was eager to supplement the bilateral dealings with the SCO basis. At that time, the global financial crisis had just started to unravel causing a decline in oil production and consumption, prompting Moscow to seek loans to keep the expansion of its petroleum companies. The obvious choice was placed on cash-rich China. Beijing was also eager to sign contracts and lend money to Moscow using the SCO meetings in order to present itself as prone to mutual energy cooperation within the common organization. The SCO platform was useful to discharge Moscow's suspicion over the growing Chinese struggle for Kazakh oil by creating an image of Beijing as partner who keenly accepts the "rules of the game". With the SCO approach as part of its energy security approach Beijing aimed at and succeeded in assuring Moscow that it is more important to enter cooperation than worry about who gets which oil field or company in Kazakhstan. Consequently, Moscow has become increasingly favorable to energy cooperation with China, complying with formerly intolerable bilateral dealings.⁹⁵

Two SCO summits offer a core of Beijing's approach. First, during the 2006 SCO summit, Russia and China signed 32 major interstate deals worth US \$2.48 billion most of which were dedicated to oil and gas projects.⁹⁶ As one of the top Russian officials said "the contracts

⁹⁶ Sergei Blagov, "Russia and China Eye Booming Bilateral Trade and Investment Ties", *Eurasia Daily Monitor*, June 20, 2006, source:

include an agreement to produce pipe-laying equipment in Russia for subsequent construction of oil and gas pipelines to China”.⁹⁷ This deal assures Moscow’s support for the oil route to China, which was previously abandoned in favor of a Japanese competing project. Second, on the eve of, and during the 2009 SCO meeting in Yekaterinburg, Russia, Beijing made the greatest leap forward in its strategy of binding Moscow and Kazakhstan into energy-related arrangements. In the preparation for the Yekaterinburg meeting of the SCO head of states in June, China signed two so-called “loan-for-oil” deals with the two of the most important SCO chain-links of its energy security strategy: US \$25 billion was granted to Russia, and US \$15 billion to Kazakhstan.⁹⁸ The arrangement made with Russia targeted Rosneft with US \$15 billion and Transneft with US \$10 billion,⁹⁹ the two crucial oil companies in charge of Moscow’s oil dealings, partially with an interest in boosting their participation in the Atyrau-Alashankou pipeline. Furthermore, at the SCO meeting Chinese President Hu Jintao pledged a US \$10 billion joint loan to the SCO member states to bolster their economies in the struggle against the economic crisis.¹⁰⁰ Consequently, both agreements pertaining to the SCO summit have boosted Beijing’s bilateral energy engagement with Russia and Kazakhstan.

The second Chinese goal was achieved with regard to Kazakhstan. Combining the SCO with the bilateral axis, China has particularly scored in the Kazakh oil sector. Using the abovementioned loan dedicated to the SCO members, Beijing took over Mangistaumunaigaz, the

[http://www.jamestown.org/programs/edm/single/?tx_ttnews\[tt_news\]=31794&tx_ttnews\[backPid\]=177&no_cache=1](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=31794&tx_ttnews[backPid]=177&no_cache=1) (15/05/2010).

⁹⁷ *Ibid.*

⁹⁸ “Sino-Russian Baby Comes of Age”, *Asia Times*, June 13, 2009, source: http://www.atimes.com/atimes/Central_Asia/KF13Ag01.html (15/05/2010).

⁹⁹ “China-Russia Oil Deal: Take It with a Grain of Salt”, *Forbes*, February 27, 2009, source: http://www.forbes.com/2009/02/18/china-russia-oil-markets-equity-0218_energy_04.html (15/05/2010).

¹⁰⁰ “China to Provide 10-Billion-Dollar Loan to SCO Members”, *Xinhua News Agency*, June 16, 2006, source: http://news.xinhuanet.com/english/2009-06/16/content_11552439.htm (15/05/2010).

fourth largest Kazakh state-owned oil and gas company, owning as many as 36 oil fields, 500 million barrels and a reported output of 113,000 barrels per day, and the Pavlodar refinery.¹⁰¹ This example would hardly represent any novelty in the Chinese bilateral energy acquisitions in the Caspian, if there was no particular impact of the SCO approach on the outcome. In this case, the SCO-driven course allowed Beijing to avoid previously encountered obstructions posed by the Kazakh government, like in the case of PetroKazakhstan when the CNPC was forced to give up half of the Shymkent refinery and 33 per cent of the company's shares in Kazakhstan's favor. Interestingly, before Beijing bought Mangistaumunaigaz it was reported that the Russian gas giant Gazprom had unsuccessfully courted Astana to acquire 49 per cent of the company's shares.¹⁰² The Kazakh leadership proved more favorable to the Chinese offer although the bid placed by the Russian company was seemingly no different.¹⁰³ It is reasonable to argue that the Chinese SCO loan to Kazakhstan enticed Astana to accept Beijing's offer regarding the sale of Mangistaumunaigaz.

The question is what made a difference in the Chinese approach in contrast to that of Russia, and why Beijing's approach was far more effective now than in the context of PetroKazakhstan. In this case when Astana keenly balanced against the Chinese tapping of Kazakh oil assets, Beijing pursued purely a bilateral approach which was conceived of as a threat to Kazakhstan's multi-vector energy policy. The combination of the SCO and bilateral approach helped Beijing not only to prevent being balanced against, but furthermore to soften its approach

¹⁰¹ "Kazakhs, China in Talks over Stake in Oil Producer", *The Associated Press*, April 13, 2009, source: <http://www.thestreet.com/story/10485092/2/kazakhs-china-in-talks-over-stake-in-oil-producer.html> (16/05/2010).

¹⁰² Ajdar Kurtov, "SCO Summit in Yekaterinburg And China's Energy Offensive Towards the Caspian Sea", *Strategic Culture Foundation*, June 18, 2009, source: <http://en.fondsk.ru/article.php?id=2238> (16/05/2010).

¹⁰³ *Ibid.*

with a group approach while retaining effectiveness. Apart from the apparent need for money, Kazakhstan was eager to turn a blind eye to Beijing's acquisition because the SCO framework offered a possibility for Astana to be treated according to the same loan conditions as all other members of the organization. Simply put, the Kazakh leadership found Beijing's SCO approach more assuring than the sole bilateral which left Astana facing Beijing's ascending energy leverage.

As a result of Beijing's increased activities through the SCO and bilateral dealings, the oil necessary for the normal functioning of the Atyrau-Alashankou pipeline was secured in the aftermath of the two oil agreements concluded with Astana and Moscow. Following the finalization of the final section of the pipeline in July 2009, the oil inflow raised to a targeted 10 million tons thus making the Kazakh-Chinese pipeline finally profitable and a reliable source of energy in the long-term providing more than 7 per cent of China's overall petroleum needs.¹⁰⁴ The conclusion of the long saga surrounding the filling of the Atyrau-Alashankou pipeline might not yet have come to an end, but Beijing's positioning toward the oil diplomacy within the SCO represents a very significant move in the country's search for petroleum.

3.4 Chinese SCO Energy Axis: Summary

In this chapter I traced the shift of the Chinese energy security strategy from solely bilateral dealings toward a greater engagement within the SCO basis. As shown, the SCO stands for more than a framework through which Beijing secures the friendly and stable Central Asian security environment for the sake of its oil routes heading from Kazakhstan. The SCO likewise

¹⁰⁴ "CNPC Announces Kenkiyak-Kumkol Section of Kazakhstan-China Oil Pipeline Becomes Operational", *CNPC Official Website*, July 15, 2009, source: http://www.youroilandgasnews.com/cnpc+announces+kenkiyak-kumkol+section+of+kazakhstan-china+oil+pipeline+becomes+operational_35798.html (20/05/2010).

shores up Beijing's energy strategy toward Moscow and Astana, being a platform for common arrangements in energy related issues. China's entrance into the 2004 action plan that created a basis for energy cooperation between the SCO petroleum producing and consuming states, negotiations with Kazakhstan over the extension of the Kazakh-China pipeline during the 2005 SCO summit and the support for the SCO Energy Club, are some of examples pointing in this direction. The main aim behind this Chinese shift appears to be avoiding clashes with both Astana and Moscow over the Kazakh oil assets, and more importantly securing the stable supply for the Atyrau-Alashankou pipeline, the major goal of Chinese oil dealings with Kazakhstan.

To achieve this endeavor, Beijing exploited the structural shift in distribution of power evoked by the global economic and financial crisis to bind Russia and Kazakhstan into mutual energy cooperation. The aim behind this strategy was not to empower the SCO with the prerogatives that would restrain the Chinese ability to act independently, but to enhance Beijing's power *vis-à-vis* both partners. This was obvious in the case of "loans-for-oil" deals which China pledged to Kazakhstan and Russia on the SCO basis. Binding them both into arrangement within the common framework, Beijing managed to get support from Russian companies for the filling of the Atyrau-Alashankou pipeline and successfully acquired Mangistaumunaigaz. Apart from a desperate need for money, both Astana and Moscow were eager to enter previously unacceptable deals because the SCO framework offered certain assurances that Chinese activities can be controlled. More importantly, both actors were eager to stand before Beijing in an arrangement roofed within the SCO margins. In both cases the SCO approach combined with the bilateral dealings aided Beijing in avoiding the counter-balancing while retaining the effectiveness of Chinese energy strategy.

CHAPTER 4: ALTERNATIVE THEORETICAL EXPLANATIONS TO THE UNDERSTANDING OF CHINESE ENERGY SECURITY

In this thesis I explain Chinese strive for oil in Kazakhstan as a rational behavior driven by security concerns than by power-preponderance and hegemony as emphasized by offensive neorealism. Pursuing its energy security goals, Beijing seems to accept temporary restraints in energy cooperation with Astana and Moscow while aiming to a long-term maximization of gains. In doing so, China is argued to embrace a two-track policy, comprised of a bilateral and a SCO-based level alike, to bind the two actors into energy arrangements. The core of this approach reveals Beijing does not intend to develop permanent institutions within the SCO that would limit its pursuit for oil, but represents a way to prevent counter-balancing coalitions to occur. Hence, my explanation rests to a great extent on the defensive realist assertions which suggest incremental rise in the state's relative power through a self-restrained behavior.

However, other rationalist theories provide alternative explanations based on structural incentives. One major argument, mentioned earlier, stems from offensive neorealism arguing for Beijing's power-seeking behavior. This viewpoint claims that China exerts the expansionist behavior by squeezing the Caspian oil riches and competing with Russia over hegemony in Central Asia. While findings confirm Chinese struggle for power, hegemony seems not as ultimate option given that Beijing's behavior demonstrates a great level of restraint with a greater emphasis on securing oil than exacerbating tensions with the two actors. In fact, although offensive neorealism may even argue for the SCO as Beijing's mere instrument, findings dismiss

this explanation. Both Moscow and Astana appear to use the SCO platform to advance their energy security interests by closely monitoring Chinese energy activities as the case of SCO Energy Club indicates.

Another rationalist argument, based on neoliberal expectations, is that Chinese energy relations with both Moscow and Astana are channeled through interest-driven cooperation based on constellations of interests. Neoliberalism expresses “optimism” with regard to China’s prospects to facilitate energy cooperation with both actors and suggests that this may lead to the establishment of institutions capable of shifting Chinese interests and preferences in energy security according to common rules. While the SCO has certainly evolved into organization addressing broad security issues including energy, this does not imply that SCO emanates substantial influence on Beijing’s behavior. China is keen to channel its influence through a multilateral level combining it with bilateral oil dealings than to strengthen common institutions. Thus, Beijing is more concerned with how to manage Russia’s share in the Kazakh energy market and Astana’s behavior than with the possible benefits from mutual cooperation.

Apart from the rationalist theories, the issue can be analyzed through the constructivist lenses where security cooperation is understood in terms of the way actors socially construct their own identities, understand each other and form interests based on their identities.¹⁰⁵ Constructivism argues that agents do not exist *ab initio* apart from socially constructed norms, beliefs, institutions and practices.¹⁰⁶ In the interplay between the social environment and

¹⁰⁵ Edward A. Kolodziej (2007): *Security and International Relations*, (Cambridge: Cambridge University Press), pp. 271.

¹⁰⁶ Alexander Wendt (1999): *Social Theory of International Politics*, (Cambridge: Cambridge University Press), pp. 79.

agents/actors' knowledge and experience are being shaped. This way, constructivism neglects the rationalist assumption of causally established relations and the exogenous character of interests and preferences. Instead, security cooperation is placed into a dynamic landscape of mutually interchangeable identities being shaped through different social images.

This may contribute to understanding the reasons underpinning the Chinese willingness to promote energy cooperation within the SCO as energy cooperation with Kazakhstan and Russia shifted its identity toward greater integration. However, I contend that Beijing did not alter its core values aiming at tighter relationship with Kazakhstan and Russia in the energy framework. As shown in the previous chapter, Beijing's greater emphasis on multilateral cooperation falls short of socialization into institutional norms and remains wedded to relative power considerations. Within the SCO Beijing seems reluctant to socialize with other actors within the SCO. China rather acts according to the rational logic of preserving power, while taking account of others' intentions to avoid counter-balancing.

Finally, some arguments regard the domestic level of explanation as a variable to analyze how leaders and domestic groups influence the decision-making process. One version, based on constructivism, argues that to understand Beijing's behavior one needs to explore the strategic culture of contemporary China that is community's common norms and values in which the leadership and decision-makers are embedded.¹⁰⁷ Although useful for making additional inferences about the normative underpinnings of Beijing's greater emphasis on the SCO, this approach does not account for China's unchanged nature of rationalist calculations in dealing with other actors. Other argument, derived from neoclassical realism, indicates the focus of

¹⁰⁷ See: Alistair Ian Johnson (1995): "Thinking About Strategic Culture", *International Security*, 19(4), pp. 32-64.

inquiry should be placed on the interplay between the incentives from the structural level and the way Chinese leadership translates them into decisions amid the interactions with different domestic stakeholders.¹⁰⁸ Although I emphasize the impact of domestic constraints on Chinese strive for energy security, particularly increasing social pressures on the government, my primary aim is to concentrate on outcomes of Chinese behavior to make inferences about the behavior of the state in the international system.

¹⁰⁸ See: Jeffrey W. Taliaferro *et al*, “Introduction: Neoclassical Realism, the State and Foreign Policy”, in Steven Lobell, Norrin M. Ripsman and Jeffrey W. Taliaferro (eds.) (2009), *Neoclassical Realism, the State and Foreign Policy*, (Cambridge: Cambridge University Press) pp. 23-28.

CONCLUSION

In this thesis I inquired into the underpinnings of the Chinese ambivalent approach to energy security with regard to Kazakhstan and Russia. Exploring Beijing's striving for petroleum in the Caspian reflecting on the construction of the Atyrau-Alashankou pipeline, my aim was to explain a possible causal link between the Chinese simultaneous use of a bilateral and the SCO level in dealing with the aforementioned actors. Contemplating its behavior as security-driven, I argue that China's SCO energy vector reinforces its bilateral strategy by decreasing the chance of counter-balancing by Kazakhstan and Russia through binding both of them into energy cooperation.

The findings from the three case studies suggest that both Chinese approaches are interconnected, wherein the SCO approach emerged as a consequence of the pitfalls in Beijing's bilateral strategy. As shown in Chapter 2, China's bilateral rush for Kazakh oil ended with counter-balancing of its activities by Astana and Moscow. The case of PetroKazakhstan revealed the extent of Kazakhstan's and Russia's eagerness to restrain Beijing's acquisitions. This behavior reflected concerns about their interests in the light of Chinese mounting presence, as Beijing's moves were taught to be unchecked and non-transparent.

Consequently, China shifted its approach toward a greater emphasis on the SCO framework. Offensive realism fails to explain this shift given that it stresses constant unilateral expansion. However, the underlying aim was not either in accordance with the neoliberal assumption about mutual interests, or with the constructivist proposal of changing normative milieu. Beijing remained uneager to cede its oil policy to any actor, not even to the SCO. Rather

Beijing employed the regional forum to negotiate and conclude arrangements on tactical grounds: binding Astana and Moscow into cooperation under the banner of a common framework was expected to ease their reluctance and secure the oil for the operation of the pipeline. As presented in Chapter 3, Chinese leadership was willing to take part in common agreements such as the 2004 action plan on cooperation between the SCO oil producing and importing members, or support the Russian-led project, The SCO Energy Club, which aimed to monitor Beijing's moves in Kazakhstan. This clearly shows that the SCO does not serve as Beijing's sole instrument, but rather as useful theater to reinforce its bilateral dealings as indicated in the case of loan-for-oil deals.

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