

# Central Asia–China Pipeline Politics: Turkmenistan at a Crossroad

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The announcement of China's Belt and Road Initiative (BRI) in 2013 revealed China's ambitious plan in Central Asia. As demonstrated by the construction of the Central Asia–China Gas Pipeline, China has been skillful in maneuvering various strategies and toolkits to address the country's energy problem. By using loans and other investment mechanisms to access Turkmenistan's gas fields, Beijing creates the conditions for reaching bilateral agreements and forming joint ventures to hold individual countries accountable for supplying and transiting energy to China. With the creation of a hub-and-spoke system for regional development, China's diplomacy is bilateral in means but multilateral in ends. However, the prospect for Turkmenistan is less optimistic following the suspension of Line D of the Central Asia–China Gas Pipeline. Therefore, this paper argues that despite the initial attempt to diversify energy export, Turkmenistan's current loan repayment arrangement and heavy export dependence on China have locked up the country. In the foreseeable future, Turkmenistan has no other viable options to address its current dilemma.

Key words: Central Asia, Turkmenistan, China, Natural Gas, Pipeline



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## Introduction

Asia's booming energy demand has transformed the landscape of global energy markets and geopolitics. As regional powers such as China and Russia compete over control of energy infrastructure and transportation links, there has been increasing attention on international oil and gas pipelines. In 2013, the announcement of China's Belt and Road Initiative (BRI) under President Xi Jinping revealed China's long-term vision and ambitious investment scheme to play an increasing role in Central Asia and Eurasia. However, China's decisive entry into Central Asia can be dated to a decade earlier, when the 2000s witnessed an intensified trend of China's investment in the region. Spurred by its growing appetite for resources and its strategic concern for energy security, China looked west to Central Asia for a solution to address the country's energy demand and to expand its regional influence. Notably, the construction of the Central Asia–China Gas Pipeline (also known as the Turkmenistan–China gas pipeline) grants China access to massive energy reserves in Central Asia, while simultaneously posing a challenge to Russia's gas transit monopoly built on the Central Asia–Center gas pipeline system in the Soviet era. For Turkmenistan, a major energy exporter in the region, the Central Asia–China Gas Pipeline layout triggers pipeline politics that has complicated implications for the country's economic and foreign policy prospects.

In March 2017, China and Uzbekistan officially put a halt to the construction of Line D of the Central Asia–China Gas Pipeline network, which was supposed to be the largest single gas pipeline connecting Turkmenistan to any consumer state. As state-owned China National Petroleum Corporation (CNPC) and Uzbekistan's national oil and gas company Uzbekneftegaz indefinitely postponed the pipeline's construction on Uzbekistan's territory,<sup>1</sup> it was not only a huge blow to Turkmenistan in the midst of its worst economic crisis in 25 years, but it also questioned BRI's promised prospect for regional connectivity.<sup>2</sup> Given the uncertainties created by Line D's suspension, this article will look at the development of the Central Asia–China Gas Pipeline

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1 Pannier, B. (2017) 'The End of the (Gas Pipe-) Line for Turkmenistan', Radio Free Europe/Radio Liberty, 6 March. Available at: <http://www.rferl.org/a/turkmenistan-gas-pipeline-china-berdymukhammedov-iran-russia/28353522.html>.

2 Michel, C. (2017) 'The Central Asia-China Gas Pipeline Network: Line D(ead)', The Diplomat, 21 March. Available at: <http://thediplomat.com/2017/03/the-central-asia-china-gas-pipeline-network-line-dead/>.

as a whole, and examine the pipeline politics that involves China, Turkmenistan, and Russia. In what way is the development of transnational gas pipelines important to these countries? What are the other competing interests at stake and how do they play out? More importantly, what are the implications of the suspension of Line D for the region, and Turkmenistan in particular? In essence, this article argues that, despite Ashgabat's initial attempt to diversify energy export, its current loan repayment arrangement with China and heavy export dependence on China have locked up the country. In the foreseeable future, Turkmenistan has no other viable options to address its current dilemma.

### **Pipeline Politics: How is Gas Different from Oil?**

In the twenty-first century, pipelines are becoming increasingly attractive to countries that seek to pursue energy security and to address environmental concerns.<sup>3</sup> As a result of increasing global demand for natural gas and the emergence of new post-Soviet resource-rich states, pipelines present the only option for landlocked countries in Eurasia to export their resources, in spite of the ongoing trends in liquefied natural gas (LNG) development in other parts of the world. In addition, depletion of reserves near traditional markets and gas market deregulations also facilitated the rising demand for gas pipelines.<sup>4</sup> As such, pipelines become more than a simple method of energy transit but an international asset with significant geopolitical implications.

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The nature of natural gas supplies makes gas inherently more political than oil. First and foremost, natural gas markets are distinct from oil markets in that they are primarily regional instead of global. Whereas oil is traded on international markets and is subject to constant supply and demand reconfiguration, the gas market is typically constrained by direct supply linkages at regional level. Pipelines are effectually the only viable means of moving large volumes of natural gas overland, which creates direct and close connections between suppliers and consumers through long-term contracts. Second, the construction of new

<sup>3</sup> Shaffer, B. (2009) *Energy Politics*. Philadelphia, PA: University of Pennsylvania Press, p.49.

<sup>4</sup> Stevens, P. (2003) 'Cross-Border Oil and Gas Pipelines: Problems and Prospects', A report for Joint UNDP/World Bank Energy Sector Management Assistance Programme, p.xiii. Available at: <http://siteresources.worldbank.org/INTOGMC/Resources/crossborderoilandgaspipelines.pdf>.

international pipelines requires sufficient political motives and support from participant countries and financing parties. Because international pipelines are capital intensive and they need to operate for at least fifteen to twenty years before investments can be recouped,<sup>5</sup> it is normally governments rather than profit-driven private companies that sponsor a new natural gas pipeline for economic and strategic purposes. Moreover, geographical barriers to build transport infrastructure and technical challenges in operating a gas pipeline network also limit the size of a gas market.<sup>6</sup> These difficulties require additional political commitment and consultation from participant countries in order to keep a gas pipeline in operation, and therefore participant countries not only have to commit to positive relations but also are subject to political and economic interdependency between them.

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Despite numerous advantages that drive states to pursue direct gas supply via pipelines, transnational gas pipelines are also inherited with various political and financial risks.<sup>7</sup> Pipelines are vulnerable to disruption even after they are put into operation, as they require considerable volumes of natural gas “behind the pipe” to supply if they are to be financially viable.<sup>8</sup> The inflexibility in gas supply networks also means that gas outages involve much greater reconnection problems than oil, so security of supply is of primary importance to transnational gas pipelines.<sup>9</sup>

Given the high cost of constructing gas pipelines and the high operational risks, supplier and consumer states have invested interests in each other’s political stability and financial viability, which often creates strategic implications for these countries and in the region. As a result, energy cooperation provides a channel for supplier and consumer states to use pipelines as a vehicle to exert influence over each other’s politics. As China advances with the Central Asia–China Gas Pipeline in the region, it fundamentally challenges Russia’s established interests built

5 Shaffer, *Energy Politics*, p.38.

6 Stevens, ‘Cross-Border Oil and Gas Pipelines: Problems and Prospects’, p.xiv.

7 Seaman, J. (2010) ‘Energy Security, Transnational Pipelines and China’s Role in Asia’, *Asie. Visions* (27), Institut Français des Relations Internationales, p.16.

8 Ebel, R. E. (2009) ‘The Geopolitics of Russian Energy: Looking Back, Looking Forward’, *Center for Strategic and International Studies*, July, p.38.

9 Stevens, ‘Cross-Border Oil and Gas Pipelines: Problems and Prospects’, p.6.

on the Central Asia–Center pipeline system that can date back to the Soviet era.

### Overview of the Central Asia–China Gas Pipeline

In 2006 and 2007, the Chinese government completed general agreements with the Kazakhstan, Turkmenistan, and Uzbekistan governments respectively on the construction of Central Asia–China Gas Pipeline.<sup>10</sup> As the longest pipeline in the world, running for 1,833 kilometers, the Central Asia–China Gas Pipeline connects Turkmenistan’s eastern fields and transits gas via Uzbekistan and Kazakhstan to the West–East pipeline in China’s Xinjiang. The initial annual capacity was 30 bcm per year, with Line A and B each carrying 15 bcm after they entered operation in December 2009 and October 2010. While Turkmenistan was at the beginning the only supplier of gas through this pipeline network, Line B later added supplies from Uzbekistan and Kazakhstan, and enabled China to get gas from all three Central Asian producers.<sup>11</sup> In 2014, a parallel Line C entered operation and added another 25 bcm delivery capacity to the pipeline network (10 bcm each from Turkmenistan and Uzbekistan, and 5 bcm from Kazakhstan).<sup>12</sup> By 2016, the pipeline network included three lines, with a total capacity amount to 55 bcm per year.

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However, the fourth line that is currently under construction, Line D, is planned to go through a shorter yet more challenging route that travels through Uzbekistan, Tajikistan, and Kyrgyzstan before reaching China. It aims to boost the Central Asia–China Gas Pipeline’s total capacity by another 30 bcm per year and reach 85 bcm upon completion.<sup>13</sup> It intends to expand Turkmen gas delivery to China to 65 bcm per year, a level China

10 China National Petroleum Corporation. ‘Flow of Natural Gas from Central Asia’, Available at: <http://www.cnpc.com.cn/en/FlowofnaturalgasfromCentralAsia/FlowofnaturalgasfromCentralAsia2.shtml>.

11 Blank, S. (2010) ‘The Strategic Implications of the Turkmenistan–China Pipeline Project’, The Jamestown Foundation, February. Available at: <https://jamestown.org/program/the-strategic-implications-of-the-turkmenistan-china-pipeline-project/>.

12 Kohler, A. (2012) ‘TransAsia Gas Pipeline from Turkmenistan to China’, ILF Consulting Engineers, September. Available at: <http://www.iploca.com/platform/content/element/14392/4AndreasKohler.pdf>.

13 Information is not available as how the additional 30 bcm is going to be distributed among supplying countries, but it is believed that Turkmenistan is going to take up the entire 30 bcm.

and Turkmenistan agreed in Beijing in May 2014.<sup>14</sup> To be distinguished from the existing three lines, Line D is arguably a regional development and integration project involving Tajikistan and Kyrgyzstan as transit states.<sup>15</sup> However, the construction of Line D has run into significant obstacles in practice. Although the work in Tajikistan's territory had already begun in 2014,<sup>16</sup> Uzbekistan first postponed its own part of the construction scheduled for April–May 2016 to December 2016, citing technical reasons,<sup>17</sup> and CNPC subsequently put another halt to Line D in March 2017 without specifying the reason.<sup>18</sup> Despite the original schedule to enter operation by 2016, the completion of Line D is now officially postponed to 2020, with a further alleged delay to no sooner than the end of 2022.<sup>19</sup>

Although the suspension of Line D may seem to question the regional integration promise of the Central Asia–China Gas Pipeline network, the completion and operation of the three existing lines is no doubt a milestone for China's great march into Central Asia's energy resources. This story of success can be captured by China's employment of a particular strategy: *based on China's shared political interests with Central Asian countries, Beijing uses loans and other investment mechanisms to first access gas fields and then employs official bilateral agreements to hold individual countries directly accountable for supplying and transiting energy.*

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China's financial power and its role as a leading investor in the region lay the basis for the completion of the Central Asia–China Gas Pipeline. Beijing's quest for energy

14 Ratner, M., Nelson, G. M., and Lawrence, S. V. (2016) 'China's Natural Gas: Uncertainty for Markets', Congressional Research Service, 2 May, p.12. Available at: <https://fas.org/sgp/crs/row/R44483.pdf>.

15 Sabonis-Helf, T. (2018) 'Infrastructure and the Political Economies of Central Asia,' in Burghart, D. L. and Sabonis-Helf, T. (eds), *Central Asia in the Era of Sovereignty: The Return of Tamerlane?* Lanham, MD: Lexington Books, p.228.

16 Michel, 'The Central Asia–China Gas Pipeline Network: Line D(ead)'.

17 Interfax (2015) 'Uzbekistan Puts off Pipeline to China', 21 December. Available at: <http://interfaxenergy.com/gasdaily/article/18726/uzbekistan-puts-off-pipeline-to-china>.

18 Azizov, D. (2017) 'Uzbekistan Delays Building 4th Leg of Gas Pipeline to China', *Trend News Agency*, 4 March. Available at: <https://en.trend.az/casia/uzbekistan/2728336.html>; Radio Free Asia (2017) 'Wuzibiekisitan Dongjie Zhongguo Tianranqi Guandao Xiangmu (Uzbekistan freezes China's Natural Gas Pipeline Project)', 3 March. Available at: <http://www.rfa.org/mandarin/yataibaodao/junshiwaijiao/lxy-03032017103723.html>.

19 Lelyveld, M. (2018) 'China Nears Limit on Central Asian Gas', *Radio Free Asia*, 26 June. Available at: [https://www.rfa.org/english/commentaries/energy\\_watch/china-nears-limit-on-central-asian-gas-06252018100827.html](https://www.rfa.org/english/commentaries/energy_watch/china-nears-limit-on-central-asian-gas-06252018100827.html).

long precedes the articulation of BRI in 2013.<sup>20</sup> As early as July 2007, CNPC signed a 35-year production sharing agreement to develop and extract gas from the Bagtyyarlyk field in eastern Turkmenistan. While foreign countries are rarely granted access to upstream resources in Turkmenistan, China was the only foreign investor to have obtained such rights for Turkmen gas onshore, perhaps in recognition of China's growing energy needs and the commensurate size of its investment.<sup>21</sup> After the China Development Bank provided a \$4 billion loan to Turkmen gas for the Central Asia–China Gas Pipeline's first phase of development in 2009,<sup>22</sup> CNPC subsequently obtained the contract to develop Turkmenistan's Galkynysh (formerly known as South Yolotan) gas field.<sup>23</sup> In particular, China's close relationship with Turkmenistan in energy development carries a patronage role. During the financial crisis, Beijing offered Turkmenistan more than \$8 billion in soft loans for funding the development of Galkynysh gas field.<sup>24</sup> While these emergency loans effectively relieved Ashgabat's financial predicament, they also secured promises of gas deliveries for Beijing. As a result, the two countries built a mutually dependent relationship as China becomes a leading investor in Central Asia's energy producers while Turkmenistan becomes China's largest source of imported gas.<sup>25</sup>

China's initial investment to boost Turkmenistan's energy production started a positive feedback loop that facilitated a gas trade linkage, as Chinese money and infrastructure brought new momentum that dramatically increased Turkmenistan's natural gas production.<sup>26</sup> In 2015, Turkmenistan's gas production

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20 Seaman, 'Energy Security, Transnational Pipelines and China's Role in Asia', pp.15-16.

21 Olcott, M. B. (2013) 'The Geopolitics of Natural Gas Turkmenistan: Real Energy Giant or Eternal Potential?' Baker Institute for Public Policy, December, p.8.

22 Jafarova, A. (2014) 'CNPC Invests \$4 bln in Turkmenistan's Bagtyyarlyk Contract Area', *Azernews*, 12 May. Available at: <http://www.azernews.az/region/66927.html>.

23 Seaman, 'Energy Security, Transnational Pipelines and China's Role in Asia', p.24.

24 Kuchins, A. C., Mankoff, J., and Backes, O. (2015) 'Central Asia in a Reconnecting Eurasia: Turkmenistan's Evolving Foreign Economic and Security Interests', Center for Strategic and International Studies, June, p.13; Shea, D.C. (2014) 'China's Energy Engagement with Central Asia and Implications for the United States', Testimony given to the House Foreign Affairs Subcommittee on Europe, Eurasia, and Emerging Threats on 'The Development of Energy Resources in Central Asia', 21 May, p.3.

25 Cooley, A. (2015) 'China's Changing Role in Central Asia and Implications for US Policy: From Trading Partner to Collective Goods Provider', Testimony given to U.S.-China Economic and Security Review Commission on 'Looking West: China and Central Asia', 18 March, p.3.

26 Sabonis-Helf, 'Infrastructure and the Political Economies of Central Asia'.

capacity rose to 72.4 bcm,<sup>27</sup> and the estimated number climbed to 74 bcm in 2016.<sup>28</sup> As Turkmenistan borrowed more money from China, Ashgabat needed more pipelines to increase gas export capacity in order to repay its loans. At the same time, Beijing could use the inducement of pipelines and the prospect of diversified export capacity to acquire new upstream assets.<sup>29</sup> Backed by Beijing's vision that integrates upstream production and midstream transportation, China makes offers for low-barrier money that Turkmenistan and other Central Asian energy producers often find very hard to resist.

More importantly, China's success in building this pipeline network cannot be accomplished without *savoir-faire* in inter-governmental diplomacy, which can be characterized as *bilateral in means but multilateral in ends*. Essentially, Beijing and CNPC engage with production states and transit states on an individual basis; this arrangement not only facilitates China's management over the project but also implies political significance to establish China's leading position in the region – at least over energy trade. In addition to its ties with Turkmenistan, China befriends Uzbekistan and Kazakhstan by offering energy contracts hand-in-hand with political partnerships, infrastructure assistance, and diplomatic support.<sup>30</sup> In preparation for Line D, this approach of engagement was extended to Tajikistan and Kyrgyzstan in September 2013.<sup>31</sup> As opposed to multilateral consortia, these inter-governmental agreements only cover countries' respective sections of the long-stretching pipeline inside their own territories, which effectively allows Beijing to approach this multilateral project on a bilateral basis.

In addition to political effort, the creation of joint ventures also fosters a similar mechanism in the financing vehicle. The Central Asia–China Gas Pipeline network in itself comprises three separate joint ventures, each based on 50 percent ownership

27 Stratfor (2017) 'A New Customer for Turkmen Natural Gas', 13 February. Available at: <https://worldview.stratfor.com/article/new-customer-turkmen-natural-gas>.

28 U.S. Department of Commerce (2017) 'Turkmenistan - Oil and Gas Production', Export.gov, accessed on 31 October. Available at: <https://www.export.gov/article?id=Turkmenistan-oil-and-gas-production>.

29 Chow, E. and Hendrix, L.E. (2010) 'Central Asia's Pipelines: Field of Dreams and Reality', The National Bureau of Asian Research, September, p.38.

30 Petersen, A. and Barysch, K (2011) *Russia, China and the Geopolitics of Energy in Central Asia*. London: Centre for European Reform, p.42.

31 China National Petroleum Corporation, 'Flow of Natural Gas from Central Asia'.



between China–Turkmenistan, China–Uzbekistan, and China–Kazakhstan. In effect, this means that China as the common party with a majority stake would be in a position to exert influence over any regional disputes concerning price, volume, pipeline maintenance, or environmental impact.<sup>32</sup> This arrangement is the key to make sure such massive Chinese investment in emerging markets will remain economically profitable and sustainable to Beijing. With the overarching goal of regional integration under BRI, Beijing maneuvers its political and financial toolbox to create a “hub-and-spoke system” in partnering with Central Asian states in practice. Nevertheless, this approach was successful in identifying shared interests for all in the early stage of engagement and create a common ground for further multilateral cooperation.

### Implications for China and Turkmenistan

In light of China’s active search for energy security, the pipeline’s role and implications for China are clear: to diversify the types and sources of energy supplies in order to hedge against potential disruptions from any single suppliers.<sup>33</sup> Oil and gas supply vulnerability has been China’s main energy concern, especially when China is increasingly reliant on maritime imports of energy. Given China’s energy mix, the Central Asia–China Gas Pipeline and Central Asian gas can therefore not only alleviate China’s strategic dependence on the sea lanes for energy supplies, but also diversify the type and source of energy imports.<sup>34</sup> Additionally, the growing potential of Central Asian gas imports provides a reliable source of clean energy that fits with China’s blueprint of economic growth in the long term. In China’s 13th Five-Year Plan and the latest Energy Production and Consumption Revolution Strategy (2016–30), the Chinese government set targets to increase the share of natural gas in China’s energy consumption from 5.9% in 2015 to 10% by 2020 and 15% by 2030.<sup>35</sup> A report released by a think

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32 Cooley, ‘China’s Changing Role in Central Asia and Implications for US Policy’, p.2.

33 Shea, ‘China’s Energy Engagement with Central Asia and Implications for the United States’, p.1.

34 Seaman, ‘Energy Security, Transnational Pipelines and China’s Role in Asia’, p.11; Chow and Hendrix, ‘Central Asia’s Pipelines: Field of Dreams and Reality’, p.38.

35 U.S. Energy Information Administration (2017) ‘China leads the growth in projected global natural gas consumption’, 25 October. Available at: <https://www.eia.gov/todayinenergy/detail.php?id=33472>. China’s complete 13th Five-Year Plan can be accessed here: <http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>.

tank affiliated with CNPC indicated that the country's natural gas consumption is projected to grow by 8.1% annually from 2015 to 2030, suggesting China's increasing demand for natural gas in the near future.<sup>36</sup> In addition to the Persian Gulf, Central Asia is the only source of incremental supply available to meet China's demand,<sup>37</sup> and the Central Asia–China Gas Pipeline serves the critical linkage that makes possible to reorient China's energy imports and address its energy challenges.

This pipeline is not only of great importance to the sponsor, China, but also carries strategic implications for the exporter,

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Turkmenistan. For Turkmenistan, the Central Asia–China Gas Pipeline implies a changing power dynamic, which is manifested through Turkmenistan's export dependence away from Russia, increasing negotiating leverage vis-à-vis Moscow, and improved transit connectivity. As a landlocked state, Turkmenistan has two main drawbacks: 1) a political system that inhibits a robust business environment; and 2) the economy's excessive reliance on gas revenue and gas export routes. Immediately in the post-Soviet era, positive neutrality was identified as the guiding principle for Turkmenistan's foreign policy due to the country's security and development needs in a volatile environment.<sup>38</sup> As such, the maintenance of neutrality implies the country's isolationist position that comes hand-in-hand with an authoritarian "cult of personality," as well as financial independence built on energy export. Despite Ashgabat's "open door policy" on energy transit, global oil and gas supermajors are, in practice, reluctant to invest in the country, which aggravates Turkmenistan's economic reliance on few sectors. Second, in the past the Soviet heritage of energy transit layout, as represented by the Central Asia–Center pipeline system, gave Turkmenistan no choice but to rely on Russia for exporting natural gas westward to Europe. As Gazprom had a near monopoly on the export of Turkmen gas, both the volume and the price of Turkmen gas exports were subject to Moscow, which prioritized Russian domestic production to supply the larger and more lucrative Western European markets, while relegating Turkmen gas to "swing capacity" to be sold mostly

36 Luo, G. and Wang, F. (2017) 'China Expected to Step Up Use of Natural Gas', *Caixin*, 18 August. Available at: <https://www.caixinglobal.com/2017-08-18/101132543.html>.

37 Chow and Hendrix, 'Central Asia's Pipelines: Field of Dreams and Reality', p.38.

38 Kuchins, Mankoff, and Backes, 'Central Asia in a Reconnecting Eurasia – Turkmenistan', p.1.

to the “near abroad” market (the Commonwealth of Independent States).<sup>39</sup> As a result, these two factors have created long-standing vulnerability for Turkmenistan’s foreign policy and economic development throughout the post-Soviet era.

The creation of the Central Asia–China Gas Pipeline was a turning point for Turkmenistan’s gas exports and its resource-dependent economy. By redirecting Turkmenistan and Central Asian gas exports decisively to the East and accessing the huge market of China, the Central Asia–China Gas Pipeline is not only a major step toward Turkmenistan’s export diversification, but also a strategic pivot for the country’s economy to shift away from its past reliance on Russia. Because Turkmenistan’s hydrocarbon dependence is particularly pronounced and natural gas exports account for about 82% of total exports,<sup>40</sup> its economy is much less diversified and more vulnerable to Russia-related energy shocks than those of its Central Asian neighbors. While Turkmenistan and Russia are competitors in nature as supplier states, yielding Ashgabat’s lifeline of gas export (and economy) to Russia only gives Moscow leverage over Turkmenistan’s domestic political and economic decisions. As such, the direct connection between Turkmenistan and China through the Central Asia–China Gas Pipeline opens an alternative market with enough appetite, and more importantly creates leeway for the Central Asian energy producer to envision additional pipelines to Europe without bearing too heavy consequences from Russian disruptions.<sup>41</sup> Therefore, the Central Asia–China Gas Pipeline implies more than an alternative export route for Turkmenistan to reorient and diversify its gas exports; it also signifies Ashgabat’s first step to gain economic independence from Russia.

Second, although Turkmenistan currently exports almost no gas to Russia,<sup>42</sup> the Central Asia–China Gas Pipeline gives Ashgabat negotiating leverage vis-à-vis Moscow over gas deals in the future if supplies were to be resumed. The availability of a huge

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39 Ibid., p.13; Sabonis-Helf, ‘Infrastructure and the Political Economies of Central Asia’.

40 Jenish, N. (2015) ‘Walls and Windmills: Economic Development in Central Asia’, in Denoon, D. B. (ed.) *China, The United States, and the Future of Central Asia: U.S.-China Relations, Volume I*, New York: NYU Press, p.28.

41 Decker, H. (2015) ‘Russia and the Central Asia-China Pipeline: Short-term Commercial Decision or Long-term Energy Strategy’, Colombia University, Master’s thesis used by permission of the author, p.18.

42 Details of this dispute is further explained below.

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alternative market in China potentially allows Turkmenistan and other Central Asian states to maneuver their gas supplies and play the two markets off against each other in pursuit of a more favorable natural gas price.<sup>43</sup> Before Russia halted imports of Turkmen gas, Turkmenistan had already taken on this trend, as the export price for Turkmen gas to Gazprom increased drastically from \$65–100 per thousand cubic meters (tcm) in 2006,<sup>44</sup> to \$130–150 per tcm by the end of 2007, and eventually to \$250 per tcm following the conclusion of an energy deal in 2010.<sup>45</sup> Although China may not be the only decisive factor behind this price rise, the access to the China's market is likely to give Turkmenistan more bargaining power when pushing for higher prices in its negotiations with other existing and potential customers.<sup>46</sup> Meanwhile, as Turkmenistan is no longer in desperate need of Russia's purchase of its gas, this in turn begins to reveal the importance of Central Asian gas to Russia. In particular, Central Asian gas could compensate Russia's own inefficient and overly subsidized domestic energy economy.<sup>47</sup> As long as Russia wants to acquire interests in European gas markets while Gazprom continues to face stagnant natural gas production,<sup>48</sup> Turkmenistan could use its gas resources to shape a more favorable political relationship with Russia.

Lastly, as a coordinated effort that involves all five Central Asian republics, the Central Asia–China Gas Pipeline network also facilitates energy transit connectivity in the entire Central Asia and Eurasia region. With a promising prospect of energy flow to East Asia, the pipeline network foresees an integration in energy supply and other forms of critical connectivity infrastructure.<sup>49</sup> Turkmenistan views China as an important growth market for its gas exports and the lynchpin of its export diversification strategy, and Ashgabat favors the expansion of its economic ties

43 Blank, 'The Strategic Implications of the Turkmenistan-China Pipeline Project'.

44 *Ibid.*

45 Bidlack, R. (2015) *Russia and Eurasia 2015-2016 (World Today (Stryker))*, Lanham, MD: Rowman & Littlefield Publishers, p.300.

46 Kimmage, D. (2006) 'Central Asia: Turkmenistan-China Pipeline Project Has Far-Reaching Implications', *Radio Free Europe/Radio Liberty*, 10 April. Available at: <http://www.rferl.org/a/1067535.html>.

47 Blank, 'The Strategic Implications of the Turkmenistan-China Pipeline Project'.

48 Japan Times (2010) 'Pipeline Politics in Central Asia', 5 January. Available at: <http://www.japan-times.co.jp/opinion/2010/01/05/editorials/pipeline-politics-in-central-asia/#.WPQjrJgrl2w>.

49 Blank, 'The Strategic Implications of the Turkmenistan-China Pipeline Project'.

with China under the rubric of BRI.<sup>50</sup> According to Turkmen officials in interviews conducted by the Center for Strategic and International Studies (CSIS), a Washington, D.C.-based think-tank, Ashgabat now prioritizes regional trade and transit connectivity in its engagement with the other Central Asian states.<sup>51</sup> The Central Asia–China Gas Pipeline network echoes Turkmenistan’s prospect of becoming a regional hub for trade and transport and playing an increasing role in regional issues.

### Implications for Russia

As a country currently affected by the Central Asia–China Gas Pipeline, Russia may see the strategic implications of this pipeline network as two-fold. On the one hand, given Gazprom’s goal of continuing to maximize its gas sales to Europe,<sup>52</sup> the loss of Turkmen gas may diminish the Russian monopoly over Central Asian gas and Russia’s revenue and political influence. Gazprom’s corporate strategy envisions a major increase in purchases of Central Asian gas to offset declining domestic gas production.<sup>53</sup> Built on its historical monopoly, Russia was able to buy Central Asian gas at below retail prices. However, as the Central Asia–China Gas Pipeline opens China’s market for competition, diminished gas supply from Turkmenistan and Kazakhstan would reduce Russia’s profit from resale and transit fees. Additionally, Russia’s political influence would also be compromised as a result. Given its high share of world natural gas reserves and its monopoly in exports to Europe, Russia even explored the possibility of establishing a natural gas equivalent of OPEC.<sup>54</sup> Moscow views energy as more than an instrument of influence in itself, underpinning other forms of Russian hard and soft power that, together, can make Russia an “energy superpower.”<sup>55</sup> However, as its desired gas monopoly has been penetrated by the Central Asia–China direct energy supply, Russia will, in the future, no longer retain such critical influence over natural gas.

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50 Kuchins, Mankoff, and Backes, ‘Central Asia in a Reconnecting Eurasia – Turkmenistan’, p.13.

51 *Ibid.*, p.4.

52 Ebel, ‘The Geopolitics of Russian Energy’, p.38.

53 Kimmage, ‘Central Asia: Turkmenistan-China Pipeline Project Has Far-Reaching Implications’.

54 Ebel, ‘The Geopolitics of Russian Energy’, p.38.

55 Petersen and Barysch, ‘Russia, China and the Geopolitics of Energy in Central Asia’, p.1.

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On the other hand, the Central Asia–China Gas Pipeline to some extent helped Russia secure its primary market in Europe, since the pipeline and the massive transit of Central Asian gas eastward reduced the threat from an earlier, albeit now abandoned, proposal, the Nabucco pipeline. While the European market is the key to Russia’s gas exports and revenue, the Nabucco pipeline was proposed as a means to diminish European dependence on Russia’s gas exports by drawing on supplies from the Caspian states and possibly Azerbaijan and Iran. Since Russia cannot afford to lose gas monopoly in the lucrative European market, Russia made various attempts to disrupt the Nabucco pipeline while acquiescing, if not supporting, the Central Asia–China Gas Pipeline.<sup>56</sup> For Moscow, if Central Asian gas were to be exported by a route other than Russia, it is better that the gas goes east, where it would not threaten Russia’s primary market in the west.<sup>57</sup> Eventually, the Nabucco pipeline was abandoned and replaced by the less ambitious Southern Gas Corridor that no longer reaches the Central Asian gas reserves. By unleashing the Chinese market for Central Asia, however, the Central Asia–China Gas Pipeline in a way helped Russia defend its supply monopoly of Central Asian gas to the European market.

### Suspension of “Line D”

The alleged indefinite suspension of Line D’s construction leaves great uncertainty for the regional gas configuration in Central Asia. In March 2017, an unnamed official of Uzbekneftgaz released a statement that the construction of Line D was postponed indefinitely with agreement from the Chinese side.<sup>58</sup> The obstacles to Line D’s construction are exceptional given that it plans to transit through mountainous Tajikistan and Kyrgyzstan. Rumors about construction delays and suspensions have never stopped circulating. On July 26, 2017, CNPC allegedly started construction of the Tajikistan section of Line D,<sup>59</sup> but this was

56 Decker, ‘Russia and the Central Asia–China Pipeline’, pp.11–12.

57 Chow and Hendrix, ‘Central Asia’s Pipelines: Field of Dreams and Reality’, p.38.

58 Lelyveld, M. (2017) ‘China Shelves Central Asia Gas Plan’, *Radio Free Asia*, 20 March. Available at: [https://www.rfa.org/english/commentaries/energy\\_watch/china-shelves-central-asia-gas-plan-03202017103720.html](https://www.rfa.org/english/commentaries/energy_watch/china-shelves-central-asia-gas-plan-03202017103720.html)

59 Aliyeva, K. (2017) ‘Line D via Tajikistan to China positive for Turkmenistan’, *Trend News Agency*, 2 August. Available at: <https://en.trend.az/other/commentary/2783160.html>.

only officially confirmed almost half a year later, in January 2018, by the Tajik energy minister.<sup>60</sup> In August 2017, Chinese officials allegedly instructed Kyrgyzstan to push back the project in the country to the end of 2019 due to prioritized construction in Tajikistan and the need for gas development in Turkmenistan.<sup>61</sup> Given the low publicity and limited official discussions about Line D, these records of postponement may be indicative of several things.

First, the postponement of Line D is a wake-up call for Turkmenistan. When Turkmenistan committed to the Central Asia–China Gas Pipeline in 2009 and gradually geared its gas supplies eastward to China, the country only shifted from being subject to one energy hegemon to another. While China and Russia are essentially different in their positions, being an energy consumer versus a producer and reseller, Turkmenistan's growing gas export dependency on China nevertheless counteracts the country's prior efforts to diversify gas exports. Although Turkmenistan officials have not expressed concern about dependence on China, others contend that Turkmenistan's gas dependence on China hurts the country more than the previous instance with Russia did, since Ashgabat is receiving a diminishing cash inflow.<sup>62</sup> Despite Turkmenistan's plan to triple its natural gas production and increase exports from 45 bcm to 180 bcm per year, Turkmenistan has no other markets to which to sell additional volumes of natural gas.<sup>63</sup> The withdrawal of Russia and Iran, coupled with low energy prices, hit the country's budget hard. On Russia's side, Moscow canceled its contract for Turkmen gas imports at the start of 2016. According to Igor Yushkov, a senior analyst of the National Energy Security Fund, Gazprom has not fully loaded its own capacities and was glad to cancel the contract for the purchase of Turkmen gas.<sup>64</sup> On Iran's side, the Turkmen gas supplies to Iran were suspended at the

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60 BNE IntelliNews (2018) 'Tajik energy minister confirms work resumed on Central Asia-China Gas Pipeline', 2 February. Available at: [www.intellinews.com/tajik-energy-minister-confirms-work-resumed-on-central-asia-china-gas-pipeline-136162](http://www.intellinews.com/tajik-energy-minister-confirms-work-resumed-on-central-asia-china-gas-pipeline-136162).

61 Lelyveld, 'China Nears Limit on Central Asian Gas'.

62 Shustov, A. (2017) 'Why China Will Remain Turkmenistan's Main Gas Buyer', *Russia Beyond the Headlines*, 26 January. Available at: [http://rbth.com/business/2017/01/26/why-china-will-remain-turkmenistans-main-gas-buyer\\_689386](http://rbth.com/business/2017/01/26/why-china-will-remain-turkmenistans-main-gas-buyer_689386).

63 This is according to the chairman of Turkmengaz Ashirguly Begliyev. See more in Shustov, 'Why China Will Remain Turkmenistan's Main Gas Buyer'.

64 Eurasia Daily (2017) 'Turkmenistan's gas deadlock: what Ashgabat to find in the embrace of Beijing', 8 November.

start of 2017 over a price dispute when Ashgabat demanded extra payment.<sup>65</sup> Iran allegedly no longer needs to import natural gas from Turkmenistan because a new pipeline in northern Iran would meet the country's consumption in the populated north with Iran's own gas.<sup>66</sup>

Although the conceptions of other international pipelines have made some progress in the past few years, they are too premature to deliver any concrete results for Turkmenistan any time soon. Most recently, on August 12, 2018, the signing of a landmark convention between the Caspian Sea states of Russia, Azerbaijan, Iran, Kazakhstan, and Turkmenistan once again stirred people's nerve about the idea of the Trans-Caspian Gas Pipeline. Turkmenistan's cooperation with Azerbaijan appears

*Turkmenistan's cooperation with Azerbaijan appears to be an immediate next step and an approachable way for Ashgabat to implement a westward export route, which both countries have supported since 2010.*

to be an immediate next step and an approachable way for Ashgabat to implement a westward export route, which both countries have supported since 2010. Unfortunately, as this Caspian convention failed to delimit the seabed itself, it is far from the final word on the division of this strategic sea and its abundant energy resources.<sup>67</sup> Even if all political issues were resolved, the economics of bringing gas from Turkmenistan to Europe would remain problematic.<sup>68</sup> A missing international link from Georgia to Romania under the

Black Sea – also known as the White Stream Pipeline – will continue to prevent Turkmen gas from being exported to Europe at an economical price.<sup>69</sup>

Another proposed mega-pipeline that has been in discussion for the past 20 years is the Turkmenistan–Afghanistan–Pakistan–India (TAPI) pipeline. However, TAPI faces significant questions about its commercial viability, not to mention security concerns regarding the transit of gas through

65 Pannier, 'The End of the (Gas Pipe-) Line for Turkmenistan'.

66 Iran Front Page (2017) 'Iran No Longer Needs Turkmenistan's Natural Gas', 30 July. Available at: <http://ifpnews.com/exclusive/iran-no-need-turkmenistans-gas/>.

67 Stratfor (2018) 'What Does the New Caspian Sea Agreement Mean for the Energy Market?' 17 August. Available at: <https://worldview.stratfor.com/article/what-does-new-caspian-sea-agreement-mean-energy-market>.

68 Pirani, S. (2018) 'Let's Not Exaggerate – Southern Gas Corridor Prospects to 2030', *Oxford Institute for Energy Studies*, July, p.17. Available at: <https://www.oxfordenergy.org/publications/lets-not-exaggerate-southern-gas-corridor-prospects-2030/>.

69 Cutler, R. M. (2018) 'Commentary: U.S. Push Could Revive Turkmen Gas Hopes', *Radio Free Europe*, 22 January 22. Available at: <https://www.rferl.org/a/commentary-turkmenistan-gas-hopes/28990352.html>.



unstable regions of Afghanistan and Pakistan.<sup>70</sup> Despite public enthusiasm about TAPI, this project is unlikely to be completed in the 2020s. Therefore, the current predicament leaves China as Turkmenistan's only customer and the only hope to generate revenues from gas sales, a trend that began to emerge as early as two years ago.

Moreover, despite the huge delivery capacity provided by the Central Asia–China Gas Pipeline, Turkmenistan's current exports to China are far short of the agreed volume. In the midst of a precipitous decline of Turkmen exports to Russia in 2015, Turkmenistan's total gas exports dropped to 38.1 bcm.<sup>71</sup> The export volume went down further in 2016, when Turkmenistan exported no more than 30 bcm to its only major market, China. Although low global energy prices and economic downturns caused Turkmenistan's natural gas production to decline in three consecutive years from 2015 to 2017,<sup>72</sup> the main reason behind low export volumes lies in China's market demand. According to a general director of the China–Kazakhstan joint venture company, the current delivery volume of the Central Asia–China Gas Pipeline is mainly determined by the demand of the Chinese domestic market. Three factors are taken into consideration when determining the import volume through the pipeline: 1) the ratio of China's domestic gas production versus import volume; 2) the seasonal fluctuation of China's domestic demand; and 3) the construction and development of China's domestic gas infrastructure and facilities.<sup>73</sup> As such, despite the high volume of agreed Turkmen gas exports to China, Turkmenistan will be unlikely to increase it to a matching number. Turkmenistan currently exports about 30–35 bcm gas per year to China,<sup>74</sup> and in the foreseeable future, Turkmen exports to China will be most likely to stabilize at about 40 bcm per year (see Table 1).<sup>75</sup>

*Moreover, despite the huge delivery capacity provided by the Central Asia–China Gas Pipeline, Turkmenistan's current exports to China are far short of the agreed volume.*

70 Kuchins, Mankoff, and Backes, 'Central Asia in a Reconnecting Eurasia – Turkmenistan', p.26.

71 Stratfor, 'A New Customer for Turkmen Natural Gas'.

72 BP (2018) BP Statistical Review of World Energy 2018.

73 Wang, E. (2017) 'Zhongya Tianranqi Guandao Jiang Youwang Meinian Xiang Zhongguo Shuqi 850 Yi Fang (Central Asia Gas Pipeline Is Likely to Deliver 85 BCM to China Per Year)', *Sina*, 15 July. Available at: <http://finance.sina.com.cn/chanjing/cyxw/2017-07-15/doc-ifyiakwa4166031.shtml>.

74 Aliyeva, K. (2017) 'Turkmenistan seeks to supply more gas to China in 2017', *Azernews*, 1 June. Available at: <https://www.azernews.az/region/114065.html>.

75 Stratfor, 'A New Customer for Turkmen Natural Gas'.

Table 1: Turkmenistan Gas Exports to China

	Turkmenistan gas exports
Agreed delivery with Line D	65 bcm
2016 actual delivery	29.4 bcm
2017 actual delivery	31.7 bcm
First-half 2018 actual delivery (CCGP total)	~22.7 bcm
Forecasted delivery in the near future	40 bcm

Sources: BP Statistical Review of World Energy 2017 and 2018; China News<sup>76</sup>

On the other hand, due to China's loans-for-resource scheme for investment in the Galkynynsh gas field and the construction of the pipeline,<sup>77</sup> loans are tied to repayment in gas at stable, relatively low prices over a long period. While the details of the supply contracts to China are not known, the sharp decline in the average price since 2014 suggests a formula linking gas prices with oil prices.<sup>78</sup> An early agreement signed between Turkmenistan and China also promised to set the price "on a reasonable and just basis, based on a comparable price on the international market."<sup>79</sup> However, Beijing does not in fact pay as much as the price demanded by Ashgabat. Turkmenistan reportedly sells its exports to China at a giveaway rate of \$185 per tcm, which is the cheapest of all Chinese gas imports.<sup>80</sup> According to Stratfor, the price even dropped further, from \$160 to \$100 per tcm, in 2016.<sup>81</sup> Although the volume of Turkmen exports to China increased slightly from the previous year, the revenues fell by 30% to \$4.7 billion in 2016.<sup>82</sup> As such, with little hope for a large volume of cash inflow generated by additional gas sales, Turkmenistan should clearly recognize the economic and strategic predicament it is facing today.

76 Chinanews, (2018) "Jinnian Shang Bannian Zhongya Tianranqi Guandao Xiang Zhongguo Shuqiliang Da 1635 Wan Dun" (The Central Asia-China Pipeline delivered 16,350 thousand tons of natural gas to China in first-half this year), 17 July

77 Azuma, 'Global Natural Gas Pivot to Asia', p.9.

78 Jakóbowski, J. and Marszewski, M. (2018) 'Crisis in Turkmenistan. A Test for China's Policy in the Region', Centre for Eastern Studies, 31 August. Available at: [https://www.osw.waw.pl/en/publikacje/osw-commentary/2018-08-31/crisis-turkmenistan-a-test-chinas-policy-region#\\_ftn3](https://www.osw.waw.pl/en/publikacje/osw-commentary/2018-08-31/crisis-turkmenistan-a-test-chinas-policy-region#_ftn3).

79 Kimmage, 'Central Asia: Turkmenistan-China Pipeline Project Has Far-Reaching Implications'.

80 EurasiaNet (2016) 'China Figures Reveal Cheapness of Turkmenistan Gas', 31 October. Available at: <http://www.eurasianet.org/node/81091>.

81 Stratfor, 'A New Customer for Turkmen Natural Gas'.

82 *Ibid.*

Second, the halt to Line D's construction also questions the sustainability of China's economic might and its future relations with the region. Different speculations have tried to decipher the true reasons behind Line D's suspension. Problems may arise within transit states themselves, considering the history of conflict among Central Asian republics. The Russian news service RIA-Novosti looked at the financing of the project, reporting that the Uzbek part of the pipeline was left out because it was not included in the state investment program for 2017,<sup>83</sup> but, upon consideration, it seems that this is unlikely since the project is funded by a Chinese–Uzbek joint venture. Others believe that the recent drop in gas price and the pessimistic prospect of exploring and drilling for gas in Tajikistan have discouraged China's sustained commitment on the project.<sup>84</sup> Edward Chow, senior fellow for energy and national security at CSIS in Washington, D.C., is very suspicious of the economic justification for Line D: "Whatever the geological findings might be ... their exploration interests waned considerably after the drop in oil and gas prices last July," said Chow.<sup>85</sup> In response to the recent rumor concerning the resumed construction of Line D on Tajikistan's part, Chow believed that it was merely the effort of Tajikistan to keep the project's idea floating, while China simply decided not to dispute this for its own interests.<sup>86</sup>

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Regardless of other reasons behind the suspended construction, one major implication concerns China's economic growth today. As one observer speculated, "softening domestic gas needs have led to the suspension of the Line D gas line bringing hydrocarbons from Turkmenistan to China through Uzbekistan."<sup>87</sup> Moreover, a senior economist affiliated with CNPC testified that China could face a gas surplus of 50 bcm a year by 2020 due to long-term contracts for imports of LNG and pipeline expansion plans.<sup>88</sup>

83 EurasiaNet 'Central Asia-China Gas Pipeline Expansion Delayed Again', 3 March. Available at: <http://www.eurasianet.org/node/82671>.

84 Author's interview with an energy expert in Washington, D.C.

85 Lelyveld, 'China Shelves Central Asia Gas Plan'.

86 Lelyveld, M. (2017) 'China's Gas Plans Unsettled by Oversupply'. *Radio Free Asia*, 14 August. Available at: [http://www.rfa.org/english/commentaries/energy\\_watch/chinas-gas-plans-unsettled-by-oversupply-08142017104724.html](http://www.rfa.org/english/commentaries/energy_watch/chinas-gas-plans-unsettled-by-oversupply-08142017104724.html).

87 Pantucci, R. (2016) 'In Central Asia, China's New Silk Road Stirs Memories of Over-Reach and Entanglement', *China in Central Asia*, 15 February. Available at: <http://chinaincentralasia.com/2016/02/15/in-central-asia-chinas-new-silk-road-stirs-memories-of-over-reach-and-entanglement/>.

88 Lelyveld, 'China Shelves Central Asia Gas Plan'.

Other concerns also include uncertain consumption growth, high distribution costs, and competition from other energy sources.<sup>89</sup> Given China's economic slowdown and its potentially saturated demand for gas, Beijing may not maintain as high a level of attention and commitment to the pipeline as it previously did. As Chow precisely pointed out, "this episode also raises questions about the Belt and Road strategy when political aspirations meet economic reality."<sup>90</sup> In the long run, this could imply shrinking Chinese development assistance and shrinking political resources devoted to regional development in Central Asia. Even if Beijing does not intend to downgrade this project, the postponement of Line D in the context of China's domestic economic slowing will likely hurt confidence within the region and eventually undermine the regional development promise of BRI. Either way, the suspended construction would potentially put Turkmenistan's wish to develop transit connectivity and reinvigorate its economy on hold.

## Conclusion

The Central Asia–China Gas Pipeline reveals a complicated scenario in Central Asia with significant implications for Turkmenistan in particular. In the last decade, China completed the construction of three lines of the Central Asia–China Gas Pipeline network, thus breaking Russia's monopoly over Central Asian gas and transit. Beijing has been skillful in maneuvering its strategies and toolkits. By using loans and other investment mechanisms to access Turkmenistan's gas fields, Beijing created the conditions for reaching official bilateral agreements and forming joint ventures to hold individual countries directly accountable for supplying and transiting energy to China. With China sitting at the center of this multilateral project as a liaison and creating a hub-and-spoke system for regional development, China's diplomacy is bilateral in means but multilateral in ends. At the same time, the construction of the Central Asia–China Gas Pipeline would not have been possible without Russia's prioritization of its European market.

Despite the current desirable outcome for China, the prospect for Turkmenistan is less optimistic, especially following the

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89 Lelyveld, 'China's Gas Plans Unsettled by Oversupply'.

90 *Ibid.*

suspension of Line D. Ashgabat's ultimate goal of export diversification has been counteracted by Turkmenistan's increasing gas export dependency on China. In light of the Turkmenistan–China loan repayment arrangement, Turkmenistan cannot expect to generate much revenue from gas sales to China, either with or without Line D. At the same time, however, Ashgabat has no other viable partners in the neighborhood, nor the financial capability to build additional pipelines to go further down the road of export diversification. Therefore, as the suspension of Line D questions China's continuous political commitment to BRI and disillusiones Turkmenistan from its hopes for China to reinvigorate its economy, Turkmenistan only finds herself waking up in the middle of another deadlock with no way out.