

# Kazakh-Chinese Cooperation in Energy Sphere

S.M. Nurdavletova<sup>1</sup>, A.M. Yesdauletova<sup>2</sup>, A.O. Yesdauletov<sup>3</sup>

<sup>1</sup>*International Relations Department, L.N. Gumilyov Eurasian National University, Astana, saniyanm83@mail.ru*

<sup>2</sup>*International Relations Department, L.N. Gumilyov Eurasian National University, Astana, ardak63@mail.ru*

<sup>3</sup>*Department of Journalism And Political Science, L.N. Gumilyov Eurasian National University, Astana, aitken57@mail.ru*

**ABSTRACT:** As a full member of the international community, Kazakhstan contributes to ensuring geopolitical stability and international security, presenting itself as a state that is fully aware of its responsibility to provide global energy balance and security. Central Asia is increasingly becoming the new focus of Chinese diplomacy. This region is an axis linking Northeast, West and South Asia, China and Russia. The People's Republic of China (PRC) is beginning to move closer to key political and economic players in the Central Asian region. Therefore, it is necessary to consider how the new initiative of China, Belt and Road, will affect its further energy cooperation with Kazakhstan and other countries of Central Asia. Kazakh-Chinese cooperation contributes to strengthening the independence of Kazakhstan, allowing development of its energy resources and their export to European markets. But China, as a rapidly growing consumer of energy, inevitably emerges as a potential competitor to the United States and the European Union in Central Asia. Based on a scientific analysis of the strategic interests of Kazakhstan and China, the main purpose of this article is to study new systemic approaches for optimizing cooperation between these two states, which affect national, bilateral, and regional/international issues in the framework of economic development and geopolitics. In turn, based on the study, recommendations will be made for the state structures of the Republic of Kazakhstan in the field of energy policy and energy security of the country.

**KEYWORDS:** Kazakhstan, China, Central Asia, energy policy, oil and gas

## Introduction

The relevance of the topic of this study stems from the role of a relatively new instrument of foreign and economic policy in the face of growing contradictions and competition, namely, "energy diplomacy". Despite the fact that this tool was considered ineffective for a long time, it is increasingly being used, along with traditional diplomacy, by China and Kazakhstan, which enter into commercial ties with the largest energy companies. In the context of a rapidly changing regional situation in the 21st century, the study of Chinese policy in Kazakhstan has an increased theoretical and practical relevance.

The relevance of the topic is determined by the need to study relations between the Republic of Kazakhstan and China at the stage of strategic cooperation. It was this serious turn towards the PRC in the foreign policy of Kazakhstan that finally set priorities in the interests and choice of the countries of the Central Asian region, in general, in favor of the initiative of the new Silk Road and the speedy implementation of transit, logistics and pipeline projects of the "Belt and Road". To date, Kazakhstan's effective participation in multilateral regional formats and in bilateral dialogues with the outside world on energy issues has been noted.

The development of Kazakh-Chinese energy cooperation is important for expanding trade and economic relations between the Republic of Kazakhstan and the People's Republic of China, for strengthening the strategic partnership between the two countries, as well as for ensuring the energy security of Kazakhstan in the new conditions of constantly accelerating the process of economic globalization. In this regard, a special place in bilateral relations is given to oil cooperation, in particular, the implementation of an agreement in this area signed by Kazakhstan and China in September 1997. Today, among the CIS countries, Kazakhstan is the second oil producer after Russia, having unique reserves of carbon raw materials. Kazakh oil accounts for approximately 30% of the total energy production, gas 15% of the total share.

Proven strategic reserves include 169 hydrocarbon fields, including 87 oil fields, 17 gas fields, 30 oil and gas fields, and 35 oil and gas condensate fields. Proven reserves amount to 2.2 billion tons of oil, 1.8 billion cubic meters of gas, 0.7 billion tons of gas condensate. In terms of production, the republic ranks 26<sup>th</sup> in the world (Caspian Policy Center 2020).

In September 1997, during Li Peng's official visit to Kazakhstan, agreements were reached on long-term large-scale cooperation in the extraction and transportation of oil to China. Several more agreements followed, according to which the PRC undertook to finance three major projects in the oil and gas sector of Kazakhstan: the development of the Uzen field (\$4 billion), oil production in the Aktyubinsk region (\$1.1 billion), and the construction of the Western Kazakhstan-China oil pipeline (\$4.5 billion). In addition, 66.7% of Aktobemunaigas JSC was transferred to CNPC.

### **The Evolution of Kazakh-Chinese Energy Cooperation**

Development of relations between China and Kazakhstan in the second half of the 1990s. The Kazakh-Chinese trade and economic relations reached a qualitative level, due to the development of new transport corridors and the prospect of large Chinese investments in the oil and gas sector of the republic. In June 1997, China, represented by CNPC, acquired for \$4 billion a 60% stake in JSC Aktobemunaigas, which owns the Uzen field on the Mangyshlak Peninsula.

The Chinese side, according to the signed agreement, also undertook to carry out the development and construction of a 3,000-kilometer oil pipeline, which, according to preliminary estimates, will require another \$3.5 billion. This agreement was called the "Contract of the Century", according to which China announced its intention to invest \$9 billion in the oil industry of Kazakhstan in the next 20 years as a result of the construction of an oil pipeline from Western Kazakhstan with a length of 2900 km. The estimated cost of the project is \$2.7 billion. The Kazakh part of the pipeline Aktau - Kumkol will be 1200 km, and the Chinese part 1800 km (through the territory of the XUAR). From the XUAR oil fields, the Chinese pipeline system continues to the city of Shanshan. If the oil pipeline is loaded with at least 20 million tons of oil per year, the pipeline can go to Lanzhou, from where there is already a main oil pipeline to Eastern China.

Construction was supposed to be carried out in two stages. First: Kenkiyak Kumkol, 785 km long, oil pumping volume - 15 million tons per year. Second: Atasu - Alazhankou, 1100 km long, the volume of deliveries is 20 million tons annually. At that time, this project had many critics and opponents, which is understandable. After all, it was about reorienting the colossal Chinese market to new oil sources. Considering that the only way to effectively transport Kazakh oil, including Caspian oil, to world markets was through the construction of a pipeline, the approval of the Chinese pipeline project was a great success for China.

Thus, energy cooperation has become one of the priority areas of cooperation between China and Kazakhstan. As is known, the policy of reforms and open doors (since December 1978, the 3rd plenum of the Central Committee of the CPSU of the 2nd convocation) stimulated the development of the economy, and China soon turned from an importer of raw materials into an exporter. In 1999, China's crude oil imports reached 40 million tons, and according to preliminary data in 2000, it exceeded 50 million tons. Data on the production and consumption of oil in China in the 1990s. show that the average annual increase in crude oil production was 1.9%, that is, about 2.75 million tons, and the average annual consumption was 7.7%, or about 10 million tons (CNPC 2022).

It should be noted that 66.7% of Aktobemunaigas JSC was transferred to CNPC; The PRC undertook to finance 3 large projects in the oil and gas sector of Kazakhstan: the development of the Uzenskoye field (\$4 billion), oil production in the Aktyubinsk region (\$1.1 billion) and the construction of the Western Kazakhstan-China oil pipeline (\$4.5 billion).

The fundamental basis between the Governments of the Republic of Kazakhstan and the PRC is the signed documents, such as the Agreement on Cooperation in the Field of Oil and Gas, the General Agreement between the Ministry of Energy and Natural Resources of the Republic of Kazakhstan and the China National Petroleum Corporation (CNPC) on field development projects and the construction of oil pipelines. In the field of energy resources, another important document was signed as an Agreement on the construction of a pipeline from Western Kazakhstan to Western China, as a result of which CNPC acquired a 60% stake in the Kazakhstani enterprise Aktobemunaigas (Kazpravda 1998).

At that time, forecasts showed that the growing Chinese economy after 2000 more than 200 million tons of oil products per year will be needed. If China imported 25-30 million tons of oil from Saudi Arabia, then supplies from Kazakhstan were at the level of 100 to 500 thousand tons, because oil was delivered by rail and this limited the volumes. And the already existing oil pipeline between the two countries makes it possible to pump 20-25 million tons of oil per year and has a positive impact on the economy of the Republic of Kazakhstan. The mutual interest of the countries became the basis for the joint development of the oil and gas industry, which was subsequently successfully implemented in the development of the Aktobe oil field, and later in the Atasu-Alashankou (Kazakhstan-China) oil pipeline project.

In the 2000s Chinese investment in Kazakhstan has expanded to include other sectors such as infrastructure, manufacturing and agriculture. In recent years, Chinese investment in Kazakhstan has continued to grow and China has become one of the largest foreign investors in the country.

Since 2003, energy cooperation has become an important and strategic issue. In this direction, at the interdepartmental level, a Protocol was signed on the joint study and phased construction of an oil pipeline from the Republic of Kazakhstan to the PRC and an agreement on further expansion of investment in the oil and gas sector of Kazakhstan. In addition, Kazakhstan and China signed documents on the project of a main gas pipeline through Kazakhstan, Uzbekistan, Turkmenistan to China with a total length of 7 thousand km, which allowed diversifying gas supplies from Central Asia to world markets. The efforts of the China National Petroleum Corporation (CNPC) have concentrated, in addition to participating in the construction of the Atyrau-Kenkiyak pipeline, on working with other companies that own licenses for exploration and production of oil around the Zhanazhol field (CNPC 2022).

On the basis of previously signed intergovernmental agreements in the field of oil and gas in 1997, Kazakh-Chinese enterprises since 2003 began the implementation of one of the major projects for the construction of the Kazakhstan-China oil pipeline, and eventually the first section of the pipeline from the oil fields of the Aktobe region to Atyrau was completed.

In May 2004, during the state visit of the Republic of Kazakhstan N.A. Nazarbayev to China and after the signing of the Agreement on the construction of the Atasu-Alashankou oil pipeline, construction work began. The contract caused a great resonance in the world media, opening a new route for Kazakh oil and determining the diversification of energy export channels (Kazpravda, 2004). During the visit of the Minister of Energy and Mineral Resources of the Republic of Kazakhstan to China in April 2004, specific issues of development in the field of oil and gas and the construction of the Kazakhstan-China oil pipeline were discussed. As a result of the meeting, the head of the MEMR of the RK and the head of the SCRR signed a Protocol of negotiations, in which agreements were fixed on the further development of cooperation in the oil and gas sector. The export of oil through the Dostyk-Alashankou railway station amounted to 2 million tons in 2003, which indicates both the development of cooperation in the oil and gas sector in general, and the urgency of accelerating the Kazakhstan-China oil pipeline.

And already in 2005 the project was completed, and in 2006 the Atasu-Alashankou main oil pipeline (with a capacity of 10 million tons per year) with a length of almost 1000 km was launched. The launch of the pipeline opened up opportunities for Kazakhstan to fully

utilize its transit potential by transporting Russian oil from Western Siberia through Kazakhstan to China.

In the field of energy cooperation between the two countries, one of the important events was the commissioning in 2009 of the Kazakh section of the Central Asia-China gas pipeline and the presentation of the Kazakhstan-China oil pipeline. The parties agreed to jointly implement a number of new large-scale projects in the field of traditional and alternative energy, innovation and high technology. The Atasu-Alashankou oil pipeline, which was put into operation, allowed Kazakhstan not only to diversify oil export routes, but also to use its transit potential more efficiently. The completion of the construction of the Kenkiyak-Kumkol and Kumkol-Atasu pipelines by the China National Petroleum Corporation (CNPC) connected the Atyrau-Kenkiyak and Atasu-Alashankou oil pipelines built earlier and integrated the main oil pipelines of Kazakhstan into a single system of China (Kazpravda, 2004). Later, in 2013, an agreement was signed between Kazakhstan and China on the transfer of a share (8.333%) to the China National Petroleum Corporation (CNPC) in the large-scale oil project Kashagan on the shelf of the Caspian Sea. The entry of the CNPC corporation into this project reflected a positive effect in bilateral relations, expanded the energy cooperation between the Republic of Kazakhstan and China, and, accordingly, strengthened the position of the corporation itself in the Kazakhstani market. Due to the fact that the growing Chinese economy needs stable energy imports, China's desire for diversification is growing, and Kazakhstan is becoming an important and reliable source of energy resources for the PRC.

## Results and discussions

It should be noted that in recent years, Chinese companies have played an increasingly important role in the economy of Kazakhstan. They are represented as public and private companies, as well as joint ventures with local companies. For Chinese partners, Kazakhstan is attractive for its vast reserves of natural resources, infrastructure development opportunities and a growing consumer market. According to Kazakh Invest, in 2019, Beijing's investments in Kazakhstan reached \$27.6 billion, making China one of the largest foreign investors in the country (KazInvest 2019).

One of the key events in the history of Kazakh-Chinese cooperation was the One Belt, One Road Initiative, an infrastructure development project led by the Chinese government launched in 2013. Kazakhstan played a key role in this initiative, resulting in a significant increase in Chinese investment in the country.

From 2013 to 2020, as part of the BRI, China invested about \$18.5 billion in Kazakhstan, of which \$3.8 billion was directed to the transport sector (Forbes, 2020). According to some sources, investments in Kazakhstan amounted to more than \$70 billion, or about 80% of all Chinese investments in the region (Crudeaccountability, 2021). Among the key export categories of Kazakhstan to China, crude oil and oil products are in the first place worth US\$4.1 billion, which more than doubled in 2022. Next are refined copper and copper alloys worth US\$2.3 billion, up 15.2%, and natural gas reaching US\$1.2 billion, up 13.6% (EnergyProm 2022). One of the main Chinese companies in Kazakhstan in the investment direction is the China National Petroleum Corporation (CNPC). CNPC is the largest producer and supplier of oil and gas in China and is ranked 4th in the Fortune Global 500.

The company implements successful projects in the Republic of Kazakhstan, such as (CNPC 2019):

- construction in 2019 of a large-diameter steel pipe plant in Almaty to supply Kazakhstan-made pipes for existing and under construction oil and gas pipelines.

- creation of a joint Beineu-Shymkent gas pipeline between CNPC and KazMunayGas JSC. The length of the gas pipeline is 1477 km, capacity - 10 billion cubic meters. m per year. The gas pipeline is one of the main infrastructure projects of Kazakhstan, included in the list of investment strategic projects "Map of industrialization of Kazakhstan for 2010-2014". The

gas pipeline is of strategic importance in providing the southern regions of Kazakhstan with domestic natural gas.

- Establishment of an oil refinery, PetroKazakhstan Oil Products LLP, jointly with KazMunayGas JSC. The capacity of the refinery in terms of processing volume is 6 million tons of oil per year. In 2016-2019 the refinery was modernized for the production of high-quality petroleum products.

Another large Chinese transnational company operating in the Republic of Kazakhstan is CITIC Group, specializing in the engineering and construction industry. Since 1982, the corporation has been investing in foreign projects. In 2017, the corporation's assets amounted to more than \$973 billion, revenues - \$61 billion. The company ranks 149th in the Forbes Fortune 500 rating (Eldala 2021).

Examples of successfully implemented projects jointly with CITIC Group in Kazakhstan are: implementation of the project for the construction of a plant for desalination of produced water with a capacity of 17,000 m<sup>3</sup> per day "LLP JV CITIC-Water Ecology Aktau" together with the Chinese investor "CITIC Envirotech Ltd." (Primiminister.kz 2022); implementation of a bitumen plant project in the city of Aktau jointly with CITIC Group and the Kazakhstan State Oil and Gas Corporation.

## Conclusions

So, China is a long-standing and stable energy partner of Kazakhstan. Over the years of cooperation, two important pipelines for the transportation of energy resources have been built: an oil pipeline and a gas pipeline. More than 150 million tons of oil were transported through the Kazakhstan-China pipeline. In general, according to the Ministry of Energy of the Republic of Kazakhstan, Kazakhstan has managed to transport about 147 million tons of oil to China since the start of operation of the Kazakhstan-China pipeline and 44 billion cubic meters of gas since 2013 via the Sarybulak-Zimunai and Kazakhstan-China gas pipelines. Chinese companies hold an important share in oil and gas production in Kazakhstan. According to data for 2021, China ranks 4th in the regional context for oil production in the Republic of Kazakhstan. China accounts for 16% of all oil production in Kazakhstan and CNPC is ranked 3rd in the list of top 10 investors in oil production in 2021, accounting for 11.5% of production. In 2021, CITIC produced 1.4%, or 1.22 million tons of oil (Eldala 2021).

At the same time, it should be noted that the process of foreign investment in the oil and gas industry of Kazakhstan is hampered by a number of problems related to accounting for their inflow. This applies to investments from all countries, including China. Firstly, Kazakhstani statistics do not contain data on the geographical breakdown of foreign investment in the oil industry; it reflects investment parameters only for a more aggregated type of activity - "mining and quarrying". This problem, however, can be omitted by identifying the oil industry with the mining industry, since virtually all foreign investment accumulated in the mining industry is concentrated in the "crude oil and natural gas" industry.

Secondly, there is the problem of accurately identifying the country of origin of foreign investments in the oil industry of Kazakhstan, since in many cases foreign companies prefer to use the jurisdictions of other countries, creating subsidiaries there that act as investors in Kazakhstani projects. This also applies to the activities of Chinese companies in full, which makes it extremely difficult to objectively assess their investment activity in the oil industry of Kazakhstan.

In Kazakhstan, the reinvested income of enterprises with foreign participation is one of the main sources of direct investment - in the last few years (since 2016) they form about 30% of the gross FDI inflow into the country (Primiminister.kz 2022). In this regard, the volume of income received by companies in the oil sector, including those with the participation of Chinese capital, can be a fairly representative indicator of their investment activity.

Thus, Kazakh-Chinese oil and gas cooperation is a model of mutual benefit and mutually beneficial situation. China is a major energy consumer and annually imports large quantities of energy raw materials such as oil, natural gas, coal and uranium ore. Kazakhstan is an energy rich country with large reserves of oil, natural gas, uranium, coal, solar and wind energy.

### Acknowledgments

This research has been funded by the Science Committee of the Ministry of Education and Science of the Republic of Kazakhstan (Grant No. AP14870606).

### References

- Caspian Policy Center. 2020. "China-Kazakhstan Bilateral Relations. Caspian Policy Center." Available at <https://www.caspianpolicy.org/research/security-and-politics-program-spp/china-kazakhstan-bilateral-relations> [Accessed on 21.05.2023].
- CNPC. 2019. "Uspeshnye energeticheskie kompaniy KNR v RK." Available at [http://www.cnpc-amg.kz/?p=vnov\\_46](http://www.cnpc-amg.kz/?p=vnov_46) [on 16.02.2020].
- CNPC. 2022. [http://economicdefinition.com/Companies\\_of\\_China/Kitayskaya\\_Nacionalnaya\\_Neftegazo\\_vayakorporaciyaCNPCEto.html](http://economicdefinition.com/Companies_of_China/Kitayskaya_Nacionalnaya_Neftegazo_vayakorporaciyaCNPCEto.html) [Accessed on 10.03.2022].
- Crudeaccountability. 2021. "Po dannym nekotorykh istochnikov..." Available at <https://crudeaccountability.org/kazakhstan/> [Accessed on 30.08.2022].
- Eldala. 2021. "Deyatel'nost' CITIC Group v RK." Available at <https://eldala.kz/novosti/kazahstan/7242-kitayskiy-holding-citic-nameren-investirovat-v-apk-kazahstana> [Accessed on 13.12.2022].
- EnergyProm. 2022. "China, Kazakhstan Bilateral Trade Up 34% In Twelve Months." Available at <https://www.silkroadbriefing.com/news/2023/03/15/china-kazakhstan-bilateral-trade-up-34-in-twelve-months/> [Accessed on 17.07.2023].
- Forbes.kz. 2020. "Investitsiy Kitaya v Kazakhstan v 2019." [https://forbes.kz//finances/markets/ostaetsya\\_li\\_proekt\\_odin\\_poyas\\_-\\_odin\\_put\\_poprejnemu\\_perspektivnyim](https://forbes.kz//finances/markets/ostaetsya_li_proekt_odin_poyas_-_odin_put_poprejnemu_perspektivnyim) [Accessed on 08.11.2022].
- Kazakh Invest» dataData. 2022 Available at <https://invest.gov.kz/media-center/press-releases/stroitelstvo-kazakhstansko-kitayskikh-invest-proektov-budet-vestis-v-sootvetstvii-s-zakonodatelstvom/> [Accessed on 02.06.2022].
- Kazpravda. 1998. "Kazakhstan – Kitai: est' neobkhodimost' «sverit' zhasy»." *Kazakhstanskaya pravda*, 3 iulya 1998.
- Kazpravda. 2004. "Sotrudnichestvo vo imya budushego." *Kazakhstanskaya pravda*, 20 maya 2004.
- Primiminister.kz. 2022. "Sotrudnichestvo RK i KNR v energeticheskoi sfere." <https://www.primeminister.kz/en/news/reviews/oil-production-construction-of-schools-and-active-development-of-tourism-what-projects-implemented-in-mangystau-region9867> [Accessed on 18.07.2023].