

# China's energy policy towards the Caspian region:<sup>1</sup> the case of Kazakhstan

Energy security is an important component of national security as a whole. In the past 20 years, with China's economy developing rapidly, its demand for oil has also grown. According to the 2009 forecast by the International Environmental Organization (IEO), the world's total energy consumption will increase by about 44 percent annually, between 2006 and 2030. The estimation is that the non-OECD economies will show the largest increase in energy demand. China and India are the two fastest-growing non-OECD economies, and they will be key world energy consumers in the future.

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## Guaranteeing energy supplies

Chinese economic growth structure and the pace of it made China the world's second largest oil consumer in 2003; the US was the first. The 17th session of the Chinese National People's Congress mentioned that the next five years will be crucial for China to achieve its goal of quadrupling Gross Domestic Product (GDP) per capita by 2020 (compared to 2000), and to build a "comprehensive medium prosperous society". To achieve this goal, energy supply must be guaranteed.

Based on China's current energy demand and supply situation, China must both develop the domestic potential capability and actively seek overseas energy resources in order to ensure its energy supply. One such overseas resource is found in the region of the Caspian Sea, which hosts one of the world's largest oil and gas reserves; according to BP's 2009 Statistical Review of World Energy, the oil reserves of the states of the Caspian basin were estimated at 36.2 thousand million tonnes, or 21 percent of the world's proven reserves. However, in terms of significance to the global energy market, gas is even more important than oil. By the end of 2008, the gas reserves of the Caspian basin states were estimated to be 84.91 trillion cubic metres, or 46 percent of the world's proven reserves.<sup>2</sup>

China entered the Great Game in the Caspian region later than the other players, but the energy cooperation between the two parties has progressed significantly. Especially the cooperation between China and Kazakhstan will play an important role in helping China to expand energy cooperation into the other Caspian basin states. Since the mid-1990s, the competition for energy in the Caspian Sea region has been increasingly fierce. The prospects of massive gains for energy companies is apparent, and the Caspian Sea is about to become a hotspot as energy-hungry countries race to secure their shares in the exploitation of the vast energy resources. However, the exploitation of oil and gas is impeded by unsettled disputes over the distribution of energy resources among the littoral states of the Caspian Sea. Only Russia, Kazakhstan, and Azerbaijan have signed a demarcation agreement and have started exploring and developing the region.

Most of the energy resources exploited in the Caspian Sea are exported. Thus, an increase in production is dependent upon the development of the downstream infrastructure. The direction in which the Caspian Sea countries choose to build their export pipelines to the international markets is the focus of the competition in the related countries. This is mainly because all existing or designed pipeline projects are connected to specific geopolitical and economic interests, but also to those interests of the large international companies. Currently, three of the pipelines that export oil from the region pass through the Russian port of Novorossiysk, two are westbound, while one is currently under construction.

Additionally, there are four existing natural gas pipelines in the region: the 'Central Asia-Center' (CAC) gas pipeline system, the 'Blue Stream' connecting Russia with Turkey, the Turkmenistan-Iran gas pipeline, and the Baku-Tbilisi-

Erzurum pipeline. Another pipeline, the China-Central Asia gas pipeline, is currently under construction. How to further promote energy cooperation with the Caspian states and promote harmonious development in the region is an important quest for China.

## China's energy policy for the Caspian region

The Chinese government has developed its own energy strategy. Energy security means reliable energy sources, smooth transport, and stable prices. In order to ensure these three points, cooperation with only energy producing states, transit states, or energy consuming states is not enough. Instead, China's energy security concept advocates the strengthening of multilateral cooperation, mutual benefit, and win-win resolution. Those can be achieved only by mutual cooperation to secure the global oil supply.

How will China implement its energy policy in the Caspian region? Kazakhstan is a Caspian littoral state rich in energy resources. Compared to the energy cooperation between China and other Caspian littoral states, the energy cooperation with Kazakhstan is more prominent, runs relatively smoothly, and is comparatively successful. In fact, the energy cooperation between those two countries can be seen as representative of the wider cooperation between China and the Caspian region states.

The government of China and Chinese companies play different roles. The government attaches a lot of importance to the energy cooperation with Kazakhstan, since it has a lot of potential, and is considered to be a way to ensure energy security. Simultaneously, strengthening the energy cooperation is conducive to the consolidation of bilateral friendly relations. For this reason the government of China tries to extend its support to Chinese companies, just as all countries support their native companies, under the condition of policy and law permission. More specifically, the government's good neighbouring policy and the western development policy give the Chinese oil companies a good environment to cooperate with their partners. China respects and understands the states that choose their developing model according to their national conditions, and advocate diversity and the democratization of international relations. Inter-governmental cooperation plays a key role in guaranteeing the energy cooperation between the two countries. While implementing the energy cooperation with Kazakhstan, the government of China provided all possible assistance and loans to support the construction of infrastructure and the improvement of the population's living conditions. Additionally, the Chinese government actively supports the financial, agricultural, and other non-energy sector cooperation between the two sides, and has signed many relevant legal documents with Kazakhstan about energy cooperation. All these actions have been welcomed by Kazakhstan, and have played an important role in promoting energy cooperation between the two parties.

Unlike many companies with high operating costs, Chinese companies have low costs and high efficiency advantages. Chinese enterprises focus on both economy and social

benefits, and are appreciated by their partners. Chinese enterprises also adopt a flexible management model and advocate unity and an integration corporate culture, pay attention to establishing harmonious relations with the local government, parliament and trade unions, abide by the law, respect the local customs and habits of partners, and try to build close relationships with local populations.

In order to understand how the relationship between China and Kazakhstan has achieved such remarkable results in a very short period of time, we have to admit that there are many objective factors that have played an important role in promoting bilateral energy cooperation. First of all, China and Kazakhstan are neighbours. Second, since the establishment of diplomatic ties between China and Kazakhstan, the bilateral relations have been stable and healthy, and that has laid a sound political foundation for both sides to develop bilateral energy cooperation. Third, the good relationship between the two countries' leaders is conducive to developing bilateral energy cooperation. Fourth, the energy cooperation between the two countries can result in mutual benefits and a win-win situation. Fifth, both states are members of the Shanghai Cooperation Organization, through which they continuously expand and deepen the cooperation in the energy field. Sixth, the energy cooperation between the two countries also has cultural advantages.

What is the future of China's energy policy for the Caspian region? China is still in a disadvantaged position to compete for energy resources in the Caspian region. China has only made some outstanding achievements with Kazakhstan in the energy cooperation field. The cooperation with the other Caspian states is still at a very early stage, facing many difficulties. However, in the context of the global financial crisis, the strong trend of China's economic development and harmonious diplomatic philosophy will support China to get a place in the future energy competition map in the Caspian region.

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## Notes

- 1 The Caspian Sea regional countries in this essay refer to the five countries around the Caspian Sea, including Russia, Azerbaijan, Kazakhstan, Turkmenistan, and Iran.
- 2 Among them, the proven gas reserves of Azerbaijan are approximately 1.20 trillion cubic metres, Kazakhstan's are approximately 1.82 trillion cubic metres, Russia's are 43.3 trillion cubic metres, Turkmenistan's are about 7.94 trillion cubic metres, Uzbekistan's are 1.58 trillion cubic metres, while Iran's are 29.61 trillion cubic metres.

Below: State oil company complex, Kazakhstan. Photo reproduced courtesy Creative Commons/Flickr.

