

Prospect on the Energy Cooperation between China and Kazakhstan from the Perspective of One Belt, One Road Initiative

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Abstract: Energy cooperation is the key element and the pioneering project in the construction of the Belt and Road economic belt. With abundant gas and oil resource, Central Asia is viewed as the core region of the Silk Road Economic Belt, and the energy cooperation is also the top priority of the economic cooperation between China and other Central Asian countries. This paper describes the actual situation of the oil industry in China and Kazakhstan, introduces the history of the energy cooperation between the two countries, analyzes the challenges hindering the development of the cooperation, and then gives a corresponding prospect. In the context of the Belt and Road initiative, China should insist the attitude of mutual benefit and win-win cooperation, diversify the energy cooperation between the two countries, improve the related policies and institutions, and take advantage of the "Belt and Road" and other platforms such as SCO to deepen Sino-Kazakh oil and gas cooperation so as to achieve the common prosperity.

Keywords: The Belt and Road initiative, Sino-Kazakh oil and gas cooperation, Prospect

1. Introduction

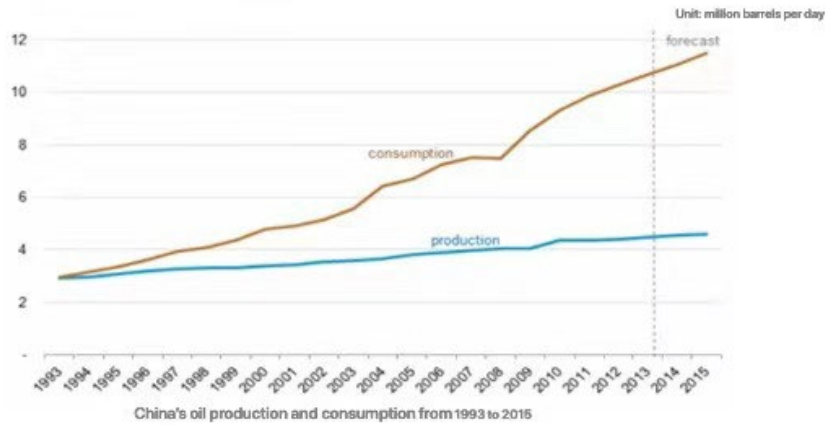
In 1993, China had transformed its role from an oil exporter to a oil importer in the international oil market. With the development of China's economy, its demand for oil is also increasing, and the national energy security has become a great concern in such condition. Ensuring the diversification of energy imports, keeping the long-term stability and security of energy supply have become the problems that China must consider on the road of further development. In this context, Kazakhstan, which has a long history of peaceful relations with China and is redundant in oil and gas, has turned into a great choice. In fact, the energy cooperation between the two countries can be dated as early as the 1990s, which has been steadily deepen as the economic advancement of both sides. In 2013, Chinese president, proposed "the Belt and Road Initiative", which created new opportunities and platforms for the international energy cooperation. In this initiative, energy trading is viewed as the key content in the establishment of the "Silk Economic Belt", and Central Asia, a place famous for its ample energy resource, is the core region of transnational energy cooperation, which also means the oil and gas cooperation between China and Kazakhstan will also be further advanced under the framework of the Belt and Road Initiative.

"The Belt and Road Initiative" comes from the abbreviation of "the Silk Road Economic Belt" and "the 21st Century Maritime Silk Road". Drawing on the history and culture of the ancient Silk Road, and on the theme of the peaceful development, this initiative is aimed to build active economic partnerships and a regional community of shared future between China and other countries along the road. Besides, through this initiative, China also hopes to establish the connection of Asia, Europe and Africa against the context of the low-speed world economy, and fortify the transitional economic exchanges so as to achieve a final common prosperity[1-2]. In today's international community, energy diplomacy has been viewed as a common means in communicating with other countries. In addition, Central Asia is a region with extremely rich oil and gas resources. Under such circumstances, energy cooperation has become a pioneer project and a key development object in the construction of the "Belt and Road" Economic Belt.

2. Overview of oil and gas resources in China and Kazakhstan and history of bilateral Energy cooperation

2.1 Current Energy situation of China

Energy plays an indispensable role in China as every aspect of this country’s development depends on it. However, most of the oil fields in China are mature and have reached maximum production, while the country's demand for oil continues to grow. In this case, the gap between China's oil supply and demand is becoming larger and larger, which also indicates the national energy security is becoming increasingly severe, as shown in Figure 1.



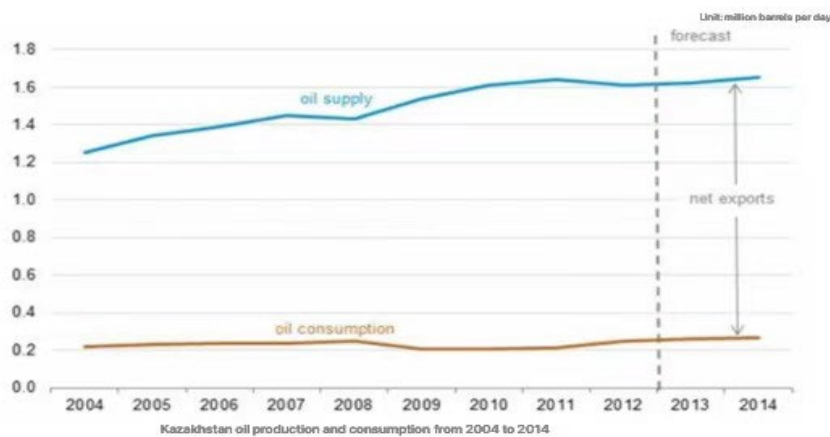
Source of data: Energy Information Administration <http://www.eia.gov/countries/cab.cfm?fips=KZ>

Figure 1: China’s oil production and consumption from 1993 to 2015

According to the data chart above, from 1993 to 2015, the gap between China's oil production and its own consumption increased year by year. Before conducting energy cooperation with Kazakhstan, China's oil imports mainly depended on sea transportation along the Middle East route. However, the Straits of Malacca and the Straits of Somalia on the route were always infested with pirates, any accident would lead to the stagnation of the transportation and the disruption of the national oil supply chain. Therefore, in order to ensure the national energy security and ease the pressure of energy supply, it is necessary of China to find new sources of oil import.

2.2 Current Energy situation of Kazakhstan

Located in the center of Asia, Kazakhstan is endowed with the most redundant oil reserves among the five Central Aisan countries, and its natural gas resources are second only to Turkmenistan, as shown in Figure 2.



Source of data: Energy Information Administration <http://www.eia.gov/countries/cab.cfm?fips=KZ>

Figure 2: Kazakhstan oil production and consumption from 1993 to 2015

From the data provided by the U.S. Energy Administration, it can be seen that Kazakhstan produces

much more oil than it consumes, thus making it as a major oil and gas exporter in Central Asia. Furthermore, since the independence of Kazakhstan, the oil industry has played a vital role in its economic development, creating the major revenue for this country every year. Therefore, both of the unique resource advantages and the strong support of the government policies make the energy cooperation between Kazakhstan and China highly complementary, and Kazakhstan will become one of the indispensable sources of oil and gas resources for China in the future.

2.3 History of Sino-Kazakhstan oil and gas cooperation

The energy cooperation between China and Kazakhstan began in 1997 when China National Petroleum Corporation successfully bid for the Akyibin oilfield project in Kazakhstan. Later, the cooperation between the two countries has been continuously deepened, gradually rising from the level of enterprises to nations. In 2013, CNPC successfully invested in Kashagan project, the largest oilfield in Kazakhstan, signifying Kazakhstan has become a key country in China's overseas investment. By the end of 2016, a complete business chain, integrating exploration and development of oil and gas, pipeline construction and operation, technical services, refinement and sales, had been formed in Kazakhstan by CNPC. The annual production and supply capacity of this chain reached more than 30 million tons. In 2005, the Sino-Kazakhstan crude oil Pipeline was completed, which was the first cross-border crude oil import pipeline in China. In 2013, the Sino-Kazakhstan natural gas pipeline was completed and put into use, which has connected the five Central Asian countries with China and made the energy cooperation between them even closer[3-5].

3. Challenges to Advance Sino-Kazakhstan Energy Cooperation

3.1 Game of Great Powers

With advanced technologies and strong national strength, the United States has carried out various activities so as to expand its influence in Central Asia. As for Russia, with its natural geographical advantages and long-term cooperative relations with other Central Asian countries, it has always been viewed as an old power in Central Asia, which possesses an influential voice in Central Asia. Undoubtedly, the invisible competition between the two would have some impact on Sino-Kazakhstan energy cooperation. Under such circumstances, the development of the energy cooperation between China and Kazakhstan will certainly complicate the relations between the three countries. Therefore, the interest game among great powers has been a potential challenge for further oil and gas cooperation between China and Kazakhstan.

As early as 2011, the United States put forward the plan called "New Silk Road", which is aimed at developing the rich energy resources in Central Asia, combating local terrorism and achieving common prosperity. Therefore, the United States has carried out a series of anti-terrorism actions in Central Asia to maintain local security. Through this plan, the United States has strengthened cooperation with Central Asian countries in many fields, indirectly achieving the purpose of weakening the influence of China and Russia in Central Asia. For energy field, the United States keeps expanding its investment in oil and gas development in Central Asia, and actively participates in the construction of pipelines in Central Asia. In Kazakhstan's three richest oil fields, Tengiz, Karachaganak and Kashagan, American companies hold 75%, 18% and 16.81%, respectively. Moreover, the United States also affected the energy export routes of Kazakhstan through various means, including promotes the western transportation routes and restricting the eastern and northern one. These moves will certainly influence the further energy cooperation between China and Kazakhstan.

On the other hand, Russia has also carried out the strategy of "rejuvenating the country with energy", which seeks to improve Russia's comprehensive national strength and consolidate its position in Central Asia whereby energy diplomacy. Central Asia, a region with plentiful energy reserves, has always been regarded as an extremely important strategic fulcrum by Russia, in which Kazakhstan is Russia's key cooperation object particularly. With geographical borders and long-standing historical exchanges, these two countries have built the long-term cooperative relations in many areas, among which the energy area is the essential one. Even before the completion of Sino-Kazakhstan oil and gas pipeline, Kazakhstan's transportation of oil and gas are mainly depended on Russia's pipeline system. In this case, an invisible competition will be inevitably formed between China and Russia, which certainly cause some hindrance in promoting the energy cooperation between China and Kazakhstan.

3.2 The unstable situation of Central Asia

In Central Asia, the problem of religionism, ethnic separatism and terrorism has existed for a long time, which has gradually evolved into various terrorist organizations, such as the "Islamic Movement of Uzbekistan", and the "East Turkestan Islamic Movement". The turbulence and turmoil caused by these terrorists and organizations from time to time have not only disrupted the lives of local governments and people, but also hindered the development of transitional economic cooperations. As early as after the collapse of the Soviet Union, the long-buried religious conflicts and ethnic problems in Central Asia began to exacerbate, which gradually bred the extremist terrorism here. What's worse, the conflicts about interests among the Central Asian countries, as well as the early problems and tensions on their borders, are both breeding grounds for extremism and ethnic separatism to grow. Besides, according to related reports, the terrorist organizations in this region are in a state of integrating. Although the political views held by these terrorist organizations are not exactly same, they all head for the final direction of anti-society and anti-humanity, which means it is possible for these organizations to integrate together and finally become a much strong and tough one. Even worse, these extremist and terrorist organizations are proved to have long been funded and supported by the overseas terrorism, such as the Afghan Taliban, Islamic State and other external terrorist forces, which have formed a considerable scale. On the whole, the terrorism in Central Asia is deeply-rooted, intricate and transitional. Although the current situation in Central Asia has been basically stable due to the joint efforts of all countries, the long-standing security problems in the region still cannot be ignored[6].

3.3 Hindrances of COVID-19

In 2020, the COVID-19 pandemic broke out around the world, which not only caused massive casualties, but also smit the global economy. For this epidemic, the world economy suffered a huge decline and untold activities held by the world's major economies had to stop. Even worse, the impact of COVID-19 on global economic development would last in the future, and the outlook of the world economy is full of challenges and uncertainties. The COVID-19 pandemic has also brought many problems to Sino-Kazakhstan energy cooperation. Due to the epidemic, China's demand for oil had fallen sharply, Since February 2020, China's oil consumption had fallen by 1.4 million barrels per day year-on-year, and the country's total oil consumption had fallen by 10 percent. The same situation was not only happening in China, but also around the world, the consumption of oil was also plummeting sharply. In early 2020, global oil consumption fell by about 6 million barrels a day, which was even steeper than the period of global economic crisis in 2008. The result for this situation was that a serious oversupply of oil had been formed, and the oil prices was diving. Besides, the failure of Russia and Saudi Arabia to reach an agreement on cutting oil production had added millions of barrels to the global oil market, which had left the world's storage facilities dangerously overloaded and caused the price of oil sinking further. Undoubtedly, Kazakhstan was seriously affected by the pandemic. As a "resource-based country", the recession of the global oil industry led to a severe contraction of Kazakhstan's economy, and the GDP of Kazakhstan once dropped by 7%. Although the then President Tokayev adopted a series of government policies, including controlling price rises and implementing the policy of resuming work and production, to stabilize the social order of Kazakhstan, the impact of the epidemic will continue to exist in the next three to five years. In this context, it is much challenging for China and Kazakhstan to strengthen the energy cooperation.

4. Suggestions and Prospects of Sino-Kazakhstan Energy cooperation

4.1 Implementing the principle of peaceful development and win-win cooperation

Nowadays, the world is in turmoil and the pandemic is also raging. Under such situation, what people all around the world earnestly hope for is a peaceful world environment and a booming global economy. Thus, "Peace and development" has become the theme of today's world. China always upholds the attitude of "peaceful development and win-win cooperation", which is also the same as the goal of "the Belt and Road initiative". Therefore, in the further promotion of the cooperation with Kazakhstan, China should continue to carry out the principle of peaceful development and win-win cooperation, establishing a good image as a great power among the people of Kazakhstan and the people of the world. In recent years, with the development of China, some theories of "China's expansion" began to heat up in Central Asia, and the news of smearing and tarnishing China by Western Media also emerged endlessly. In this regard, what China should do is to adhere to the attitude of peaceful development and win-win

cooperation, vigorously conducting “the Belt and Road Initiative”, which is not only a powerful counter to these conspiracies, but also of great importance to maintaining a good image as a major country for the further cooperation with Kazakhstan and even with other countries in the future.

4.2 Realizing diversification and vertical integration of bilateral energy cooperation

In June 2019, Kazakhstan held its presidential election, and Kassem-Jomart Tokayev was elected as the second president of Kazakhstan. The inauguration of the new president is accompanied by changes in policies and institutions in all aspects of Kazakhstan. But generally speaking, Tokayev held the attitude of "big inheritance, small change" about the policies implemented by the previous president, and did not make much change for some fundamental policies and principles of the country. As for the national economy, both of Tokayev and Nazarbayev, the previous president of Kazakhstan, agreed to speed up the transformation of Kazakhstan's national economic structure and seek to diversification of the national economy. Nowadays, due to the depression of the international oil market, the profits brought by oil to Kazakhstan are not as good as before. And the arrival of the fourth industrial revolution makes the Internet and artificial intelligence become the main force to the development of the global economy. In this regard, both presidents pointed out that Kazakhstan should conform to the trend of the new century and develop the national processing industry and high-tech processing technology, so as to lay a solid foundation for the sustainable economic development of Kazakhstan in the future. In this case, the energy cooperation between Kazakhstan and China just caters to the developing goal of Kazakhstan. The two countries can further strength the oil and gas cooperation and finally realize the vertical integration of the whole trading chain, involving the upstream, midstream and downstream businesses, which can also be viewed as a platform to extend cooperations in other areas. Moreover, during the collaboration, Kazakhstan is able to gain a lot of valuable experience from China's strong processing and manufacturing industry, thus carrying out other cooperations.

4.3 Promoting bilateral collaboration with the support of “the Belt and Road Initiative” and Shanghai Cooperation Organization

Since the conducting of “the Belt and Road Initiative”, it has received great attention from the international community. By 2022, 150 countries and 32 international organizations have signed more than 200 cooperating documents with China. The achievements reached by this great initiative and the current situation all show that “the Belt and Road Initiative” is in line with the trend of this new age and the law of global development. Therefore, in the follow-up energy cooperation between China and Kazakhstan, both sides should give full play to the advantages of this initiative, thus achieving further advancement. In addition, the Shanghai Cooperation Organization is also another important platform for deepening oil and gas cooperation between the two countries. The SCO is not only limited to safeguarding the regional security, but also a platform for China, Russia and Central Asian countries to carry out international collaborations and seek common prosperity. Actually, the member states of SCO can even form a energy consumption chain on it own as it has embraced all necessary parts, producing, transiting and consuming, of energy cooperation. Therefore, except maintaining security and stability of Central Asia, China can also take advantage of SCO as a platform to further deepen the cooperation with Kazakhstan and other Central Asian countries. In addition, the president of Kazakhstan also proposed the establishment of an SCO Energy Exchange and an SCO Energy Agency, China should also respond them positively. On the whole, China should make the best of the “Belt and Road Initiative” and SCO as the medium so as to realize the advancement of the bilateral cooperation.

4.4 Providing a stable and long-term environment through joint-formulated institutions

In 2014, the former President of Kazakhstan, Nursultan Nazarbayev, announced the implementation of the "Bright Road" policy, which aims to strength the construction of domestic infrastructure, promote the development of national special economic zones and improve the environment for foreign investment, so as to achieve the ultimate goal of upgrading Kazakhstan's economy. For this situation, China's strong infrastructure construction capacity and abundant foreign investment make the cooperation between the two countries highly complementary. So far, with China's "Belt and Road" Initiative and Kazakhstan's "Bright Road" policy, the two countries have achieved many achievements in agriculture, tourism, energy cooperation and other fields. In addition, in the Foreign Policy Outline of Kazakhstan 2020-2030 formulated by the Mikhail Tokayev in 2020, China is considered as the second priority of Kazakhstan's diplomacy, and the diplomatic relationship is upgraded to a permanent comprehensive strategic partnership, which means Kazakhstan's government attaches more and more importance to the

relationship between the two countries. Therefore, whether it is the high complementarity between the "Bright Road" and "the Belt and Road" initiative or the closer step of relations between China and Kazakhstan, both of which has brought a great opportunity for further cooperation between the two countries. What China should do is to seize this opportunity to accelerate the process of negotiating corresponding policies with Kazakhstan's government so as to build a long-term and stable environment for the further cooperations. As for the energy area, the two countries are able to set up corresponding energy institutions and clubs, recruit related professionals from two countries, and jointly discuss and formulate a series of reasonable and efficient policies, which is of great importance to provide a good institutional environment for further deepening and expanding energy cooperation between two countries in the future.

5. Summary

It has been a long history since China and Kazakhstan conducted the energy cooperation. The high complementarity of the bilateral cooperation and the improvement of related policies have made the later collaboration's prospect even brighter. In the implementation of the "Belt and Road" Initiative and the construction of the "Silk Road Economic Belt", energy cooperation is not only the key content, but also the essential support to expand the follow-up cooperation between China and Central Asian countries in other fields. Looking into the future, the Sino-Kazakhstan energy cooperation will head to the direction of high technology, diversification and integration, and Kazakhstan will also become an indispensable source of China's overland oil and gas imports. It is no doubt that the energy cooperation between the two countries will continue to deepen. However, under the bright prospect of cooperation, there are still challenges, the turbulence in Central Asia, the game between great powers, and the epidemic, hindering the bilateral energy cooperation, which absolutely cannot be ignored. In this regard, China should continue to follow the principle of mutual benefit and win-win, expand the bilateral cooperation, improve the relevant institutions and policies, and give full play to the "Belt and Road" framework and the SCO platform to strength Sino-Kazakhstan energy cooperation to a new height.

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