

Research on the Expansion of China-Russia Energy Cooperation in the Context of the Belt and Road

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Abstract: Energy trade has been a key area of China-Russian economic cooperation based on the Belt and Road Initiative (BRI). Building a stable energy supply chain has become an important goal of China-Russian energy cooperation in the future. The energy cooperation between China and Russia has advantages such as geographical location and complementary energy supply and demand, but there are still shortcomings. To expand energy cooperation between China and Russia in the new era, it is necessary to strengthen infrastructure and institutional construction, and ensure the stability and resilience of the energy supply chain on the basis of mutual trust; Seize the opportunity of "oil RMB" and enhance the voice of RMB in the international energy market; Establish a multilateral energy cooperation mechanism between China and Russia to promote the internationalization of the RMB.

Keywords: Global energy supply chain; China-Russia energy cooperation; Expansion countermeasures

1. Introduction

Energy is the most important factor affecting the economic development of countries. Russia-Ukraine conflict has made the world economy face the risk of stagflation again, and made countries around the world realize the vulnerability of the global energy supply chain again. In recent years, China's participation in energy cooperation has been weak at the global level and has been largely excluded from major energy cooperation organizations. Relatively speaking, the participation in energy cooperation at the regional level is more active, with Russia being the most important partner. In general, if China wants to increase its participation in global energy cooperation, it first needs to expand regional energy cooperation and further enhance its voice in the energy field. If China can take "the Belt and Road" as the main line to further deepen energy cooperation with Russia. It is not only conducive to accelerating China's green and low-carbon energy transformation, but also benefit to expanding opportunities for cooperation with international energy organizations and resisting the impact of multiple uncertainties in the world economy.

2. Current situation of China-Russia energy cooperation

Table 1: Analysis of China's Import Trade from Russia

Unit: Hundred Million US Dollars

Year	Total trade	Energy trade	proportion
2018	591	394	66.7%
2019	611	449	73.5%
2020	572	405	70.8%
2021	793	518	65.3%
2022	1141	849	74.4%

Relying on the convenient geographical location, China and Russia have laid a solid foundation for energy cooperation, which accounts for a large proportion of the bilateral trade volume. In the bilateral energy trade between China and Russia, the main reliance is on China's energy imports from Russia. Table 1 presents the energy trade volume imported by China from Russia from 2018 to 2022, which increased from 39.4 billion US dollars to 84.9 billion US dollars. In addition, the total trade volume of products imported by China from Russia is also constantly increasing. The current global trade pattern is gradually forming three major trade sectors: East Asia Pacific, Europe, and North America. As the issue of global energy security supply continue to receive attention, energy cooperation between China and Russia needs to go deeper and broader. The traditional energy cooperation at the regional level is

mainly based on transnational trade in oil and gas resources. Under the call of "dual carbon target", energy cooperation will no longer adhere to traditional forms. It will gradually shift from focusing single fossil energy cooperation to promoting the coordinated development of fossil energy and clean energy.

2.1 The scale of energy trade continues to expand

Russia, crowned as "world's gas station", is an energy superpower rich in oil and gas resources^[1]. Russia's economic structure depend on the natural resource will not change in short-term. Therefore the cooperation in the field of energy is still important content of the Sino-Russian cooperation. According to data released by the National Bureau of Statistics of China, China imported 86.25 million tons of crude oil from Russia in 2022, an increase of 8% year-on-year. Since the introduction of the "Russia's energy strategy to 2030" in 2009, Russia has been continuously taking measures aimed at the goal of moving its energy export strategy eastward, in order to diversify its energy export structure and channels, and thereby maximize and effectively utilize its resource potential.

2.2 The energy structure is undergoing continuous transformation

Compared to the cooperation in the field of crude oil, the cooperation between China and Russia in the field of natural gas developed relatively late but progressed rapidly. The main trend of Russian natural gas exports to the Asia Pacific region is shown in Figure 1, which clearly shows a significant upward trend in Russian natural gas exports to China. In 2016, there are only 300 million cubic meters of LNG export to China from Russian, while the Asia Pacific region accounted for 99.3% of the entire Russian LNG export market at that time, making China's LNG imports insignificant. With the upgrading of China's energy structure, the number of imported LNG has continued to rise. In 2020, LNG was imported from Russia by 6.9 billion cubic meters, accounting for 30% of the entire Asia Pacific market. In January 2023, Russia became the largest natural gas supplier to China. Low carbon transformation has become an important direction of energy cooperation between China and Russia. Russia has unique resources and industrial conditions for developing hydrogen energy, and the two sides have great potential for cooperation in hydrogen production and transportation. And for Russia, using natural gas to produce hydrogen to develop the hydrogen energy industry is conducive to stabilizing its global energy export position.

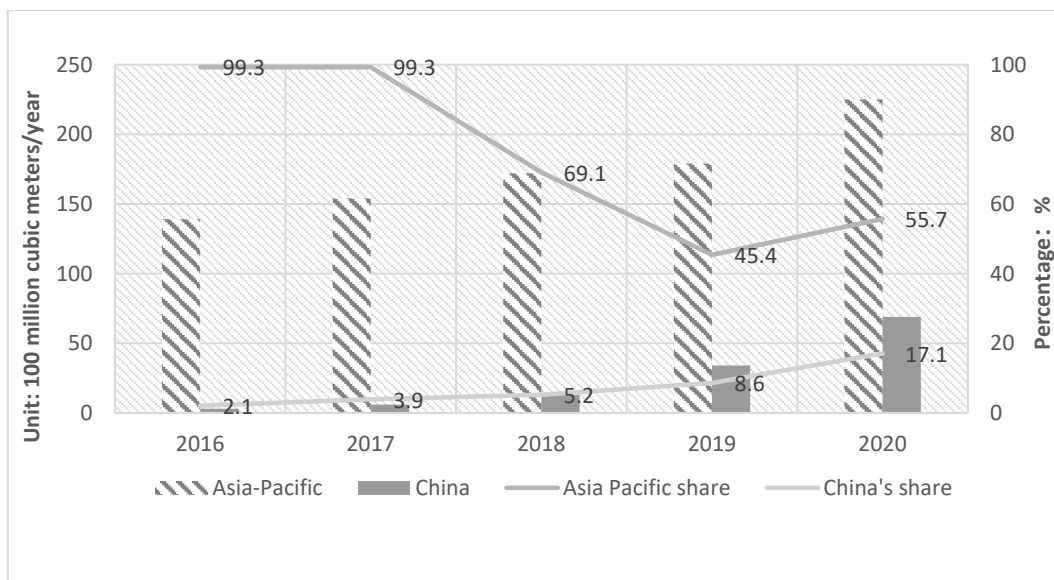


Figure 1: Russian LNG Export Volume and Proportion in Asia Pacific Region From

3. Challenges Faced by China-Russian Energy Cooperation

3.1 Inherent challenges from China and Russia

On the one hand, during the "14th Five Year Plan" and even longer period, China's energy development is not only faced with the external impact of supply chain restructuring caused by the

COVID-19 and the long-standing trade frictions between China and the United States, but also the requirements of promoting high-quality economic development on a clean, low-carbon, safe and efficient modern energy system. The restructuring of the global industrial chain, the intensification of scientific and technological competition and the acceleration of the energy transformation process urgently require strengthening the capacity for independent energy innovation, promoting the low-carbon transformation of energy and improving the energy supply and demand system. However, at this stage, there are still many difficulties in the construction of China's modern energy system. The energy industry is facing enormous pressure to achieve carbon peak ahead of schedule, and high external dependence on oil and gas will affect national energy security. In this context, finding a diversified energy supply structure and avoiding excessive dependence on Russian oil and gas is a possible policy option.

On the other hand, for Russia, as a country that uses "energy diplomacy" as an important diplomatic strategy, its energy policy lacks stability, which not only leads other countries to carefully consider energy cooperation with Russia, but also reduces the enthusiasm of other countries to invest in the Russian energy field, resulting in a domestic oligopoly in Russia's energy development, Lack of strong support to resist the impact of economic uncertainties and other ills.

3.2 Energy Price Fluctuation Caused by International Geopolitical Turbulence

Geopolitical fluctuations lead to drastic fluctuations in energy prices by reducing energy production in energy producing countries and inhibiting investment in energy development. Crude oil is the most severely impacted compared to natural gas and coal. The outbreak of the Russia-Ukraine conflict in 2022, as the "grey rhinoceros" event of international energy supply, has caused a severe impact on the world energy supply chain. From February 2022, in less than four months, the price of crude oil has risen by 28.5%, and the price of natural gas has risen by 97.8%. This energy price fluctuation has affected the stability of the world energy supply chain, and has had a serious impact on the production and economic activities of many countries, especially the EU, The energy cooperation between China, Mongolia, and Russia cannot be immune to such drastic fluctuations in energy prices. Therefore, it is necessary to adjust the strategic direction of energy cooperation based on the situation.

3.3 Price game leads to slow energy negotiation process

China and Russia have a sound political foundation, and have maintained friendly relations for a long time. However, due to different interest starting points, the two countries can frequently engage in price games during the negotiation process of source cooperation, resulting in a slow negotiation process^[2]. In international negotiations on the seller's market of international crude oil, international oil and gas exporting countries, including Russia, often use oil and gas exports as diplomatic chips. At this time, China, which is in the middle and high growth stage of industrialization, is still strongly dependent on oil imports, resulting in China being exposed to the issue of "energy security". In order to ensure the stability of crude oil imports, the country and enterprises have to bear a huge foreign exchange premium and cost premium.

4. Suggestions for enhancing China-Russian energy cooperation

4.1 Strengthen internal construction between China and Russia to create a foundation for cooperation to enhance the stability of the energy supply chain

On the one hand, China should enhance its position and voice in the international energy market by continuously expanding energy cooperation models and fields, deepen its participation in energy exploration and exploitation through shareholding, mergers and acquisitions, and increase investment, and establish a rapid and effective international energy coordination and supervision mechanism. On the other hand, Russia should continuously improve its economic base, which is heavily dependent on energy, drive the development of other fields with energy, resist economic fluctuations caused by energy sanctions imposed by other countries, and enhance the stability of energy supply.

4.2 Strengthen the stability of the energy supply chain between China and Russia and resist international turbulence

Promoting infrastructure construction not only requires China to strengthen the construction of

domestic economic ports, use the ports as a radiation center, drive the construction of infrastructure around the ports, strengthen energy transfer and storage capabilities, and enhance support for energy cooperation, but also requires China to strengthen energy exchanges with Russia, expand financing channels through the Asian Investment Bank and China Development Bank, and strengthen financial and technical support for Russia, Increase mutual economic dependence. Through the construction of The Belt and Road, we will clarify the strategic positioning of both sides in energy cooperation, break the current form of bilateral energy cooperation, break through border constraints to form a more solid bilateral cooperation, establish a more stable energy supply chain, and work together to withstand the impact of the huge changes in the current economic situation on energy^[3].

4.3 Seize the opportunity of "oil RMB" and enhance the voice in the energy market

The current worsening imbalance between supply and demand in the international crude oil market will prompt the international energy landscape to shift its focus from the seller's market to the buyer's market. The international supply of crude oil exceeds demand and the price of crude oil falls, which is conducive to expanding the space for "oil diplomacy" in China. As one of the largest oil and gas importers, China can further adjust the energy import pattern in oil and gas trade, increase the diversification of oil and gas imports, and increase China's pricing power in the international crude oil market^[4]. In March 2018, Shanghai crude oil futures denominated in RMB were listed for trading. Currently, its trading volume has exceeded that of the crude oil trading centers in Dubai, Tokyo, and Singapore, and its price benchmark role in the Asian and European consumer markets will become increasingly strong. Behind oil futures is "financial power". In the context of the current transformation of energy supply from supply to demand, taking advantage of China's position as a major energy importer and seizing the opportunity of "oil and RMB" can enhance China's voice in the international energy market and avoid unnecessary price games and resulting premium losses.

5. Conclusion

The issue of world energy security has become increasingly prominent in recent years. As a country heavily dependent on energy imports, establishing a safe and stable energy supply chain is a priority goal of China's strategic development. Russia, a major energy exporter in the world which has a long border with China, will undoubtedly become the best partner in the energy field. Now we are entering a new era, in which China-Russia relations have become a vivid example of building a new type of international relations and a community with a shared future for mankind^[5]. In the future, China and Russia will rely on the energy sector to establish deeper economic and trade cooperation.

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