

# POLITICAL AND ECONOMIC ASPECTS OF ENERGY COOPERATION BETWEEN THE RUSSIAN FEDERATION AND PEOPLE'S REPUBLIC OF CHINA

Kanat YDYRYS

*Ph.D. (International Relations), Senior Lecturer, Department of International Relations, Khoja Akhmet Yassawi International Kazakh-Turkish University (Turkestan, Republic of Kazakhstan)*

Serikbay YDYRYS

*D.Sc. (Econ.), Professor at the Department of Economics, Khoja Akhmet Yassawi International Kazakh-Turkish University (Turkestan, Republic of Kazakhstan)*

Malika MUNASIPOVA

*Ph.D. (Econ.), Senior Lecturer, Financial Audit Department, Khoja Akhmet Yassawi International Kazakh-Turkish University (Turkestan, Republic of Kazakhstan)*

Guldana TEMIRBAYEVA

*MA, Lecturer at the Department of Management and Tourism, Khoja Akhmet Yassawi International Kazakh-Turkish University (Turkestan, Republic of Kazakhstan)*

## ABSTRACT

The global nature of international energy problems, their increasing politicization, as well as the objectively developed position of the Russian fuel and energy complex within the sphere of the world energy, have made the energy factor one of the key considerations of the Russian foreign policy. In the context of the deterioration of relations with the West, Russia needs other political and, more importantly, economic allies for further development of the State itself. For this very reason, the development of

the Russo-Chinese energy interaction is perceived as one of the dominant tasks of the foreign economic priorities for Russia and, incidentally, determines the relevance for this work. In this context, the paper intends to study the current conditions and constructive prospects of the energy dialog between Russia and China. In addition, the article considers the main directions and problems of the interaction between the Russian Federation and the PRC, by examining the key aspect in their relations—energy. The article notes

that recently, the parties have reached a number of large-scale and long-term agreements in the energy sector. This allows for considering the evolution of the energy coop-

eration between the Russian Federation and the PRC to become an opportunity for reaching a qualitatively new level and achieving strategic significance.

**KEYWORDS:** *Russian Federation, People's Republic of China, energy security, geopolitics, energy cooperation.*

## *Introduction*

The energy cooperation between Russia and China is one of the priorities of Russia's foreign energy policy. This is due to a number of factors, related to foreign economic activity of Russia in diversifying the energy transportation infrastructure, as well as strengthening China's role in the world energy market. Admittedly, China is one of the world's largest economies and an important strategic partner of Russia. The energy factor plays a significant role in cooperation between China and Russia. This is not only owing to the reciprocal volume of trade, but also the issue of energy security of both countries. China is one of the largest consumers of energy resources in the world, and Russia is one of the world's largest exporters.

Despite the development of the energy cooperation between the PRC and the Russian Federation, the problems with pricing and terms of agreements are often not quite clear, which elicit disputes in the energy sector. Such disputes are an integral part of the energy cooperation between China and Russia, and, in most cases, they arise because of political and economic issues. In the context of the globalization of the energy market, there are many opportunities inherent in the cooperation between China and Russia in the energy sector.

Between China and Russia, the largest importer and largest exporter of energy, there exists a certain reciprocity in many spheres of activity, which strengthens the energy security of both parties. China and Russia have a large and promising potential in the area of energy cooperation, and it has reached a new plateau after Xi Jinping's visit to Moscow in 2013.

For example, in 2013, China became the largest trade partner of Russia, with a trade turnover, which rose by 1.7% to \$88.8 billion. Coupled with the achievements of previous years, it allows us to state unequivocally that energy cooperation has reached a completely new level. Indeed, the topic of energy involved at least eight signed documents during the visit. However, it is not only the quantitative indicators that are important. The parties also reached a number of landmark decisions<sup>1</sup>.

Then, on 22 March, 2013, in Moscow, a treaty was signed between the President of the PRC, Xi Jinping, and the RF President, Vladimir Putin, entitled the Joint Statement by the PRC and Russian Federation on Mutually Advantageous Cooperation and Deepening the Relationship of Comprehensive Partnership and Strategic Interaction.<sup>2</sup> The joint statement stressed the revitalization of the energy cooperation between Russia and China, including the petroleum and natural gas sectors, as well as those of electricity, coal industry and the alternative sources of energy; the formation of strong relations within the strategic energy cooperation between Russia and China; joint efforts in fomenting the energy security for both parties, the region and the world as a whole.

<sup>1</sup> See: S.V. Uianaev, "Rossiisko-kitaiskoe energeticheskoe sotrudnichestvo: priznaki novogo 'urovnja'," *Kitai v mirovoi i regionalnoi politike. Istoria i sovremennost*, No. 18, 2013, p. 278.

<sup>2</sup> See: V.Ya. Portiakov, "Rossiisko-kitaiskie otnoshenia: sovremennoe sostoianie i perspektivy razvitiia," *Kitai v mirovoi i regionalnoi politike. Istoria i sovremennost*, No. 18, 2013, p. 7.

The head of Gazprom, Alexey Miller, emphasized that “the volume of exports of the natural gas will constitute 38 bcm of fuel per year; the agreement allows for the possibility of increasing the volume to 60 bcm.” For the transportation of said supply, an outlet extension will be built from the Power of Siberia gas pipeline. Rosneft and the CNPC (China National Petroleum Corporation) signed an agreement on the basic conditions of supplies to the PRC of crude oil on prepayment basis for a period of 25 years, as well as the contract on energy cooperation in the area of construction and operation of the refinery, Tianjin Company LTD. The two sides also signed an agreement on cooperation in the field of geological exploration, production and sale of hydrocarbons. The CNPC will cooperate with Rosneft on eight projects in Eastern Siberia, as well as on the shelf of the Barents Sea and in the Pechora basin.<sup>3</sup>

Commenting on the conclusion of the agreements, the President of Rosneft, Igor Sechin, confirmed the potential and magnitude of the transactions. The agreement on supplying China with petroleum will have a huge impact on the strengthening of the long-term strategic relations between China and Russia in the sphere of energy and will attract additional funding for exploration and mining. It will contribute to the development of the design and construction of the necessary energy infrastructure and will assist in the smooth distribution of crude oil of Rosneft in the long term, and also provide the company Rosneft with guaranteed sales of petroleum at market prices.

After the events in Ukraine in 2014, there began a period of Western sanctions that had both political and economic determinants, which further deepened the conflict between Russia and the West. China did not support the idea of imposing sanctions against Russia, which became another important factor in strengthening the Russo-Chinese economic cooperation.

In May 2014, Russian President Vladimir Putin arrived in Shanghai on an official visit, during which 46 agreements were signed on various areas of cooperation with China, including energy interaction. Among the first agreements concluded was the one concerning renewable sources of energy, i.e., on the issue of hydropower, between the OJSC RusHydro and Powerchina.<sup>4</sup>

In 2014-2015, a number of major joint projects were launched, including a 30-year contract for the supply of Russian natural gas to China between the Russian company, Gazprom, and the CNPC. The total supply, stipulated by this contract, is approximately 1.14 tcm, costing \$456 billion. The construction of the pipeline system, named the Power of Siberia, began in 2014, and is estimated at 800 billion rubles.<sup>5</sup>

In November 2014, at the APEC summit, held in Beijing, Vladimir Putin conducted negotiations with the Chinese President, Xi Jinping. During the talks, the parties arrived at a decision to construct an additional gas pipeline, the Power of Siberia-2, through which China, for the period of the next 30 years, will be receiving 30 bcm of natural gas per year from the Yamal-Nenets Autonomous District.<sup>6</sup> Immediately after the Russian President's visit to Shanghai in 2014, Gazprom and the China National Petroleum Corporation signed one of the biggest contracts among those concluded for the entire period of the Russo-Chinese energy cooperation. A contract, worth \$400 billion, involves the export of the Russian natural gas via the Eastern route, beginning in 2018. The contract is planned to be in force until the year 2044. According to this contract, the total amount of gas that needs to be delivered to China will reach 1,032 tcm.<sup>7</sup>

<sup>3</sup> See: “Rosneft’ zakliuchila riad soglashenii s kompaniiami Kitaia,” available at [<https://www.rosneft.ru/press/news/item/177461/>], 22 March, 2013.

<sup>4</sup> See: I.Yu. Frolova, “Vizit Putina v Shankhai otkryvaet novyi etap ukreplenia strategicheskogo partnerstva RF i KNR,” RISI, available at [<https://riss.ru/analytics/5688/>], 22 May, 2014.

<sup>5</sup> See: “Energeticheskaia strategija Rossii na period do 2035,” available at [[http://www.energystrategy.ru/ab\\_ins/source/ES-2035\\_09\\_2015.pdf](http://www.energystrategy.ru/ab_ins/source/ES-2035_09_2015.pdf)], 2015.

<sup>6</sup> See: A.K. Izhbuldin, L.A. Platonov, “Analiz marshrutov postavok rosiiskogo truboprovodnogo gaza v Kitaim,” in: *Sbornik mezhdunarodnoi konferentsii “Energetika Rossii v XXI veke. Innovatsionnoe razvitie i upravlenie,”* Irkutsk, 2015, p. 1.

<sup>7</sup> See: H. Zhang, Q. Penlyan, “Russian-Chinese Cooperation in the Energy Sector: Gaming Political and Geo-economic Influence,” *Journal of Shanghai University (Social Sciences)*, No. 1, 2015, p. 39.

Energy cooperation is one of the most important aspects in bilateral relations. The development of energy cooperation between China and Russia exerts a considerable influence on the world's energy security, since China has now become one of the largest consumers of energy resources in the world, with Russia as the largest exporter.

## Political Aspects

Considering the interest of Russia and China in the bilateral energy cooperation in the political aspect, it should be noted that the long-term strategic partnership of China and the Russian Federation is built on the basis of the Russo-Chinese Joint Declaration on a Multipolar World and the Establishment of a New International Order, adopted in Moscow on 23 April, 1997, which, in 2005, served as the catalyst for the Joint Declaration of the Russian Federation and the People's Republic of China on the International Order in the 21st Century.<sup>8</sup> The reason for the signing of the Declaration was rooted in the dissatisfaction of Moscow and Beijing with the domination of the U.S. in the global economic, financial, informational, cultural and military affairs.

After the crisis in Ukraine in 2014 and the Western sanctions, the Russian foreign policy shifted toward Asia. The so-called "turn to Asia" had three main objectives: (1) ensuring the energy security of Russia; (2) the development of the Far East and Siberia; (3) the strengthening of the role of Russia in the Asia-Pacific Region.<sup>9</sup>

Thus, the recurring deterioration in the relations between Russia and the EU are likely to become the incentive for the signing of a contract between Russia and China on large shipments of the Russian natural gas to Beijing. This economic transaction, concluded during the visit of the President of Russia, Vladimir Putin, to Shanghai, has become a major issue in Big Politics. The signing of the contract had a wide resonance. There are at least three levels that can be ascribed to the impact of this deal on further developments. On a global level, the closer relations between Russia and China may have serious geopolitical consequences for the West. On the regional, Eurasian level, there could be a reduction of the dependence of the Russian Federation on Western customers, providing insurance from sanctions in the long run. On the country level, this is a mutually beneficial contract for Russia and China. The signing of the contract was very timely: Russia "saved face" politically, while China reiterated its "friendly neutrality" in relation to the Russian Federation. In the course of the visit to the PRC of the Russian President in May 2014, the foundation for the Eurasian prospects was laid, which cannot be now imagined without the close cooperation of Moscow and Beijing on the entire range of relationship issues between the states.<sup>10</sup>

Thus, after 2014, the relations between Russia and China began to progress at a rapid pace. As a result, a common understanding has been reached at the highest political level, which has increased the access of Chinese companies to Russian energy assets, allowed the People's Liberation Army of China to gain access to Russian military technologies, and expanded the use of Russian territories for infrastructure projects linking China to Europe. For its part, China has expanded credit for Russian ~~energy corporations that supply it with petroleum and natural gas. China remains the main consumer~~ of the Russian defense industry, helps Russia in the development and modernization of its infrastruc-

<sup>8</sup> See: E.A. Karelina, "Perspektivnye napravleniia v razvitii vneshnetorgovykh sviazei Rossii i Kitaia," *Kazanskaia nauka*, No. 4, 2011, p. 59.

<sup>9</sup> See: D. Trenin, "Aziatskaia politika Rossii: ot dvustoronnego podkhoda k globalnoi strategii," *Russie. Nei. Visions*, No. 94, 2016, p. 12.

<sup>10</sup> See: "Rossiisko-kitaiskii dialog: model 2016 goda," *Rossiiskii sovet po mezhduarodnym delam, Doklad No. 25*, available at [[http://russiancouncil.ru/inner/?id\\_4=7733#top-content](http://russiancouncil.ru/inner/?id_4=7733#top-content)], 30 May, 2016.

tures and shares some of its technologies. Furthermore, Moscow and Beijing continue to coordinate their foreign policy on critical global issues, including at the level of the U.N. Security Council. It is also worth noting that in 2015, Beijing and Moscow agreed on correlating the project One Belt One Way with the strategy, concerning the Eurasian Economic Union.<sup>11</sup>

At the political level, it should be noted that energy cooperation is an important part of the practical cooperation of the two countries, as well as an important embodiment of the high-level segment in the comprehensive strategic interaction and partnership between China and Russia. For China, the completion of construction of oil and gas pipelines and the commencement of major energy supplies from Russia to the PRC play an important role in ensuring the energy security of China. For Russia, in the context of the crisis in Ukraine, the signing of a number of major intergovernmental agreements with China in the gas sector implies a high level of mutual trust. Energy cooperation between China and Russia has a solid legal base and corresponds to strategic interests of the energy security of the two countries.

## Economic Considerations

At the economic level, attention should be drawn to the fact that Russia is an important energy exporting country in the Far East, and China is a key economic partner with a fairly rapid economic growth.

Over the past 20 years, the energy sector of China has become one of the most important aspects of its economic development. The energy factor is important for the economy of China, which is at a crucial stage in the development of urbanization and industrialization, and for Russia, striving to make it a driver in its innovative economic development. The strategic partnership between China and Russia, in the sphere of energy, is combined with the foreign policy of China in the diversification of the sources of energy supplies. In that sense, the strengthening of the energy cooperation with Russia not only contributes to the creation of a system of energy security in the APR region, but also contributes to the global energy security.<sup>12</sup>

Energy cooperation between Russia and China is included in the prioritized considerations of foreign energy policies of the two countries and, to a considerable extent, determines the positive development of relations between Russia and China in the early twenty-first century, especially in the last decade. According to Stanislav Zhiznin, “it is linked to a number of political and economic factors and, primarily, to the linkage of strategic interests in many problems of the modern world’s economy and policy.”<sup>13</sup> It is important to note a substantial strengthening of interaction of the energy cooperation between Russia and China that may become a precursor to a strategic partnership.

Despite the fact that the trend toward active strategic cooperation is developing successfully, the issues of pricing and conditions of the agreement are often not clear and explicit, which raises problems. And such problems are an integral part of the strategic cooperation in the sphere of energy, which, in most cases is predicated on unstable political and vague commercial guidelines. It is important to note that the resulting energy disputes will not change the basic model for energy cooperation between China and the Russian Federation.

<sup>11</sup> See: L. Han, “Perspektiva stykovki strategii ‘Odin poias—odin put’ i Evraziiskogo ekonomicheskogo soiuz,” *Upravlencheskoe konsultirovanie*, No. 11, 2015, p. 83.

<sup>12</sup> See: J. Rautava, “Russia’s Economic Policy and Russia-China Economic Relations,” in: *Russia-China Relations. Current State, Alternative Futures, and Implications for the West*, ed. by A. Moshes, M. Nojomen, Finnish Institute of International Affairs, Helsinki, 2011, p. 38.

<sup>13</sup> S.Z. Zhiznin, “Rossia i Kitai: problemy i perspektivy,” *Energoopolis*, No. 4, 2012, p. 56, available at [<http://uptek.ru/articles/1009-rossiya-i-kitay-problemy-i-perspektivy.html>].

In general, China's external energy strategy is based on two principles:

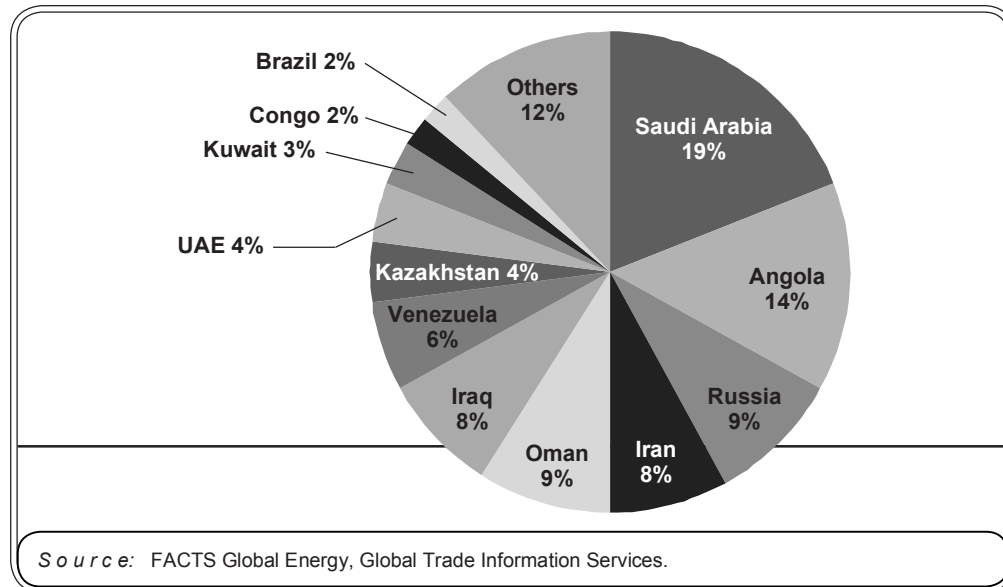
- (1) preventing conflicts between China and the exporting country; the relationship must be based entirely on conditions of mutual benefits and
- (2) a multipronged approach.<sup>14</sup>

The long and short of this approach is that the diversification of supply and transportation of energy implies simultaneous development of marine and continental transport, as well as running oil and gas pipelines from different countries and regions. These important principles are the basis of foreign concept of China to "go beyond," involving the implementation of an active regional energy policy, which has a diverse range of objectives.

In order to ensure the security of import deliveries, the Chinese Government has taken proactive measures to diversify its sources of energy. Today, China imports energy from more than 30 countries. Nevertheless, the key suppliers of oil remain the countries of the Middle East and Africa (see Fig. 1). In particular, in recent years, Angola has started cooperating with China in the energy sector. In the framework of the energy security of China, the Government is trying to diversify their sources of supply through foreign investment and the signing of long-term contracts. In 2013, the share of Middle East oil in the total volume of imported China petroleum constituted about 2,900,000 b/d (barrels per day). Oil supply from Africa to China was about 1,300,000 barrels per day, from North and South America—about 562,000 barrels, from the Asia-Pacific Region—about 129,000 barrels, and 736,000 barrels from other countries. The share of aggregate imports from the two countries that were the largest suppliers—Saudi Arabia and Angola—amounted to 33% of all oil imports to China. The import of petroleum from Russia amounted to 9% of all oil imports to China.<sup>15</sup>

Figure 1

China's Crude Oil Imports by Source, 2013



<sup>14</sup> See: J.Y.S. Cheng, "A Chinese View of China's Energy Security," *Journal of Contemporary China*, No. 17, 2008, p. 297.

<sup>15</sup> See: "China—Overview," EIA, available at [<http://www.eia.gov/countries/cab.cfm?fips=CH>], 4 Febuary, 2014.

According to an independent agency, EIA (see Table 1), since the 2014, the imports of Russian oil to China have increased significantly—by 36%. In 2014, the total amount of petroleum imports of China from Russia amounted to 30 million tons. As a result, the increase in the imported volumes of petroleum from Russia to the Chinese market makes it third largest supplier, after such traditional suppliers as Saudi Arabia and Angola.

Table 1

## Crude Oil Imports into China, 2014

Country	Share in China Imports, %
Saudi Arabia	16
Angola	13
Russia	11
Oman	10
Iraq	9
Iran	9
Venezuela	4
United Arab Emirates	4
Kuwait	3
Colombia	3
Congo	2
Brazil	2
Sudan (North+South)	2
Kazakhstan	2
Others	9

*Source:* *Crude Oil Imports into China, 2014*, available at [<https://www.eia.gov/beta/international/analysis.cfm?iso=CHN>], 14 May, 2015.

According to the World's Top Exports (see Table 2), in 2015, the imports by China of the Russian crude oil increased by 5.7%. As a result, the revenue of Russia from the sale of oil to China in the year 2015, amounted to 17.2 billion dollars. This increase in the exported oil made Russia the second largest supplier of oil to the Chinese market after Saudi Arabia. The analysis of statistical data shows that there has been a gradual increase in the export of Russian oil to China. Concurrently, there has been a decline in oil imports from the countries of the Middle East and Persian Gulf.

According to Stanislav Zhiznin: "...this concerns the diversification of the sources of energy supply and reduction in the growing dependence on the region of the Persian Gulf."<sup>16</sup> China proceeds from the need to actively develop the energy dialog with Russia. The delivery of energy resources from Russia, the strategic partner, may prove to be more reliable, in comparison with the supply of energy resources from other countries.

<sup>16</sup> S.Z. Zhiznin, op. cit.

Thus, ensuring energy security is an important aspect of the foreign policy interaction between China and Russia in the twenty-first century. After the establishment of the PRC, the Chinese Government has been working on the Balanced Energy Strategic Policy. The essence of the energy policy of China is not to become too dependent on anyone's political or geopolitical influence.

Table 2

## Crude Oil Imports into China, 2015

Country	Worth (in billion U.S. Dollars)	Percentage Change in Value for Each Supplier since 2011, %
Saudi Arabia	20.8	-46.7
Russia	17.2	5.7
Angola	15.9	-35.9
Oman	14	1.1
Iraq	12.7	21.4
Iran	10.7	-50.8
Kuwait	5.7	-22.3
Brazil	5.3	8.6
United Arab Emirates	5.1	-7
Venezuela	5.1	-30.3
Colombia	3.1	92.2
Sudan (North+South)	2.9	-69.4
Congo	2.3	-46.9
Kazakhstan	1.9	-78.7
Australia	1	-69.4

*Source:* *Crude Oil Imports into China, 2015*, available at [<http://www.worldstopexports.com/crude-oil-imports-by-country/>], 14 March, 2017.

### Conclusion

Despite the controversy, the energy cooperation between Russia and China is developing vigorously. In that way, new contracts are signed; the joint Russo-Chinese work is conducted on finding new oil and natural gas fields in Eastern Siberia and the Far East. This cooperation is very beneficial to both China and Russia, since the Chinese side needs a stable supply of resources with the prospect of ever-increasing volumes, while the Russian side gets the new, highly promising market, which also helps to develop the eastern territories of the country. The prospects for bilateral cooperation in the energy sphere are generally favorable. This is the result of the congruent strategic interests of Russia and China in many foreign policy issues. From the economic point of view, one should be aware of the fact that the energy policy of Russia provides for the active development of the eastern vector and



a significant increase in the share of the APR countries in the export of energy resources. In this sense, China is the key partner. Its national economy, by many forecasts, in the next decade will continue to develop rather quickly. China enjoys political stability. According to last state five-year plan for stable progress of the Chinese economy, it is necessary to increase the imports of natural gas and oil, not jeopardizing the national fuel and energy security. In this context, Russia is the natural partner.

What is important is not only the stimulation of the energy trade, but also a mutually beneficial cooperation in the field of energy technologies and equipment. It is of a preeminent relevance in the view of the Russian leadership's strategy on modernization of the Russian economy and the improvement of its energy efficiency. An important part in that strategy may be that of encouraging the interpenetration of financial and economic groups of both countries, including in the field of fuel and energy.

The energy cooperation between Russia and China, despite some difficulties and problems, is developing successfully, which will contribute to the further development of the strategic partnership between the two countries in the economic and political spheres. For the implementation of this partnership, the mechanisms of energy cooperation are being formed and improved. The improvement and stimulation of the effectiveness of that cooperation may be achieved by broadening the constituency of the business communities of the two countries, including the framework of the energy dialog. This format should include participants not only from public but also private corporations. With that in mind, a permanent Sino-Russian Energy Forum could play an important role, with the support and participation of governmental institutions, leading companies and experts from both countries.