

## CHINA'S PRESENCE IN THE ENERGY SECTOR OF CENTRAL ASIA<sup>1</sup>

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### *Introduction*

When the fourth generation of leaders came to power in China, the country began drawing up its policy in Central Asia (CA) on the concept of peripheral diplomacy,<sup>2</sup> which

since 2005 has been based not on the thesis of "China's peaceful rise," but on the theory of

<sup>2</sup> Three levels were singled out in the extended periphery: (1) regions bordering on China; (2) the APR; (3) the

Eurasian continent and coastal zones of the Pacific and Indian oceans. The objective of this strategy, according to Chinese authors, was to maintain friendly relations with all neighboring countries that form a belt of stability around the

<sup>1</sup> This article does not examine nuclear energy projects.

“peaceful development” that came to replace it, as well as on the idea proposed by Hu Jintao of “working together to build a harmonious world.” At present, China’s relations with the regional states are being established in keeping with the concept of “friendly, peaceful, and prosperous neighbors” (*mulin, anlin, fulin*) confirmed at the 17th congress of the CPC.<sup>3</sup> As Fudan University Professor Zhao Huasheng, a leading Chinese specialist on CA, emphasized, this concept, which was formulated as early as 2003, reflects the new approaches to relations with neighboring countries.

The changes in the PRC’s foreign policy were prompted by the rapid economic growth and reinforcement of the state’s power, which, naturally, might arouse worries in neighboring countries, most of which are weaker than China. In such conditions, it was critically important to document a new policy concept, proceeding from which the key elements in developing relations with neighboring countries are not only solving one’s own tasks, but also taking into account the interests of one’s neighbors; this precept is of fundamental significance.<sup>4</sup>

China’s growing interest in CA is fully justified and explained by the increase in this region’s importance in the world economy and politics; along with the growing threats and challenges ensuing from the region, new possibilities and prospects have opened up.

A key aspect of China’s foreign policy in CA is economic penetration into the region by implementing bilateral and multilateral economic and infrastructural projects (within the frame-

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country. The value of the peripheral strategy is defined by the fact that it can help to create a friendly and peaceful environment, improve China’s strategic position, increase its diplomatic resources, and augment its international influence. According to this concept, Central Asia and Russia have formed China’s so-called strategic rear.

<sup>3</sup> See: Hu Jintao, “Gaoju zhongguo tese shehuizhuyi weida cizhi wei douqu quanmian qiangshe xiaokang shehui xin shengli er fendou (Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in All Respects), Report at the 17th National Congress of the Communist Party of China, 15 October, 2007,” *Renmin ribao*, 25 October, 2007.

<sup>4</sup> See: Zhao Huasheng, *Zhongguo di Zhong’Ya waijiao* (Chinese Diplomacy in Central Asia), Beijing, 2008, p. 181.

work of the SCO primarily with Chinese funding) with the participation of Chinese companies and issuing soft loans for developing bilateral commerce. This is shown by the fact that China has been administering commercial and infrastructural loans within the SCO,<sup>5</sup> as well as stepping up its bilateral and multilateral economic contacts with the region’s states.

China has economic interests in several vectors of the region, one of which is trade. Whereas China’s economic expansion in CA is extremely conditional, trade expansion has already been accomplished. With the exception of Uzbekistan and possibly Turkmenistan, the other states of the region see no alternative to China’s commercial supremacy; Kazakhstan has long been strongly addicted to China’s presence, while Tajikistan and Kyrgyzstan joined the bandwagon at the end of 2005.

Two more vectors are associated with the creation of transportation and logistics infrastructure<sup>6</sup> and the formation of free trade areas (FTA) in the CA territories bordering on China.<sup>7</sup>

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<sup>5</sup> At the summit of the SCO heads of state in Tashkent in June 2004, Hu Jintao stated China’s intention to issue \$900 million in soft loans to the development of trade among the Organization’s countries. In September 2004, at an ordinary session of the heads of government of the SCO member states held in Beijing, a Program of Multilateral Trade and Economic Cooperation was signed that created a foundation for expanding not only trade and economic relations, but also for deeper integration in all spheres of the economy. In June 2009, at a summit of the SCO heads of state in Ekaterinburg, Hu Jintao said that China would issue \$10 billion to combat the financial crisis and for investing in and funding technical and economic projects.

<sup>6</sup> As always, China’s position is pragmatic. Transborder transport projects in Central Asia, first, help to solve the task of turning China into a global trade nation. Without accelerated development of the transborder transport infrastructure, there could essentially have been no increase in trade and economic cooperation between China and Central Asia. Second, these projects are a natural extension of the accelerated development of the western provinces. In so doing, according to the internal Chinese lay of the land, the Xinjiang Uighur Autonomous Region will acquire the role of a regional foreign economic and infrastructural hub.

<sup>7</sup> Failing to receive approval to create a free trade area in the SCO expanse, China began to act more subtly, preferring to come to terms with Central Asian states without Russia’s participation. As of today, an agreement in principle has been reached to create a FTA near the Irkesh-tam and Torugart check points in Kyrgyzstan, as well as near the Karasu-Kulma check point in Tajikistan. The Chi-

The fourth vector is extensive lending to the economies of the Central Asian states; it was designated in 2007, when Chinese investments in projects in Central Asia began to reach billions of dollars.

And, finally, the fifth and one of the most important vectors is the development of China's relations with the CA states in the energy sphere; it includes the following significant aspects:

- (1) acquiring ownership of raw hydrocarbon fields or their exploitation under long-term concession conditions;
- (2) building oil and gas pipelines for delivering resources to China (whereby primarily by means of Chinese loans);
- (3) China's participation in building and reconstructing hydropower plants, central heat and power plants, and power transmission lines with the prospect of delivering electricity to the PRC.

And although the transit volumes (particularly oil in the prospective amount of 20 million tons) via these pipelines and power transmission lines are not that significant for China,<sup>8</sup> from the geopolit-

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nese side has essentially already created infrastructure for an FTA near the Druzhba and Khorgos check points on the border with Kazakhstan.

<sup>8</sup> In 2007, China imported 163 million tons of crude oil, in 2008, 179 million tons, in 2009, 203.8 million tons, for the first time exceeding 50% of the oil consumption volumes, and in 2010, 239 million tons or 55% of the oil consumption volumes (see: *Zhongguo nengyuan fazhan baogao. 2010* (Report on China's Energy Development. 2010), ed. by Cui Minxian, Zhehua kexue wenxian chubanshe, Beijing, 2010, pp. 92, 95); *Zhongguo nengyuan fazhan baogao. 2011* (Report on China's Energy Development. 2011), ed. by Cui Minxian, Zhehua kexue wenxian chubanshe, Beijing, 2011, p. 12).

ical viewpoint, these projects are difficult to overestimate; their existence guarantees China's presence in the region and gives the PRC a powerful trump card when bargaining with Russia over the price of the oil and gas it delivers. There are also other projects being implemented by means of Chinese investments; this makes it possible to purchase Central Asia's hydrocarbon resources at prices much lower than the world level.<sup>9</sup>

Keeping in mind China's growing dependence on deliveries of energy resources from abroad,<sup>10</sup> it can be expected that its presence in the oil and gas complex of Kazakhstan, Turkmenistan, and Uzbekistan, as well as in the electric power industry of Kyrgyzstan and Tajikistan will continue to grow.

Cooperation in the energy sphere between each of the regional states and China has its own specifics, and so it is worth taking a closer look at each of them (to the extent the scope of this article allows).

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she, Beijing, 2010, pp. 92, 95); *Zhongguo nengyuan fazhan baogao. 2011* (Report on China's Energy Development. 2011), ed. by Cui Minxian, Zhehua kexue wenxian chubanshe, Beijing, 2011, p. 12).

<sup>9</sup> For example, Turkmen gas is delivered to China at \$120 per thousand cubic meters. For comparison, Iran pays \$170 and Russia \$190 per thousand cubic meters.

<sup>10</sup> According to the forecasts of scientists of the PRC Academy of Social Sciences, China's oil consumption will grow to 450 million tons by 2020, while the share of imported oil will increase to 64.5% (see: *Zhongguo nengyuan fazhan baogao. 2010*, p. 95); according to the forecasts of the Chinese Institute of Energy Studies, by 2015, the oil consumption volume will amount to 500-520,000 tons, while the PRC's dependence on external oil deliveries will top 60% (see: *Renmin ribao*, 28 November, 2011).

## Kazakhstan

It would probably be logical to begin with Kazakhstan since this is where China's exploitation of CA's hydrocarbon resources began. China's presence is the most widespread in the republic's oil and gas sector; it has quite a long history and evokes an immense public response.

China made its first advances way back in 1997; this was when the Project of the Century<sup>11</sup> was signed which envisaged siphoning \$11 billion of China's investments into Kazakhstan's oil industry,

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<sup>11</sup> An analysis of the publications of the mid-1990s and official documents of KazMunaiGaz Oil Company shows that by mid-1995, a company called CNPC-Aktobemunaigaz was operating in Kazakhstan. Whereby the strangest thing was that

including into the restoration of the Uzenmunaigaz and Aktobemunaigaz joint-stock companies, as well as into the building of oil pipelines to Western China and Iran. And whereas the efforts exerted to restore Uzenmunaigaz were unsuccessful, the CNPC-Aktobemunaigaz Joint-Stock Company was established on the basis of Aktobemunaigaz, in which the Chinese National Petroleum Company (CNPC) owns 85.45% of the shares.

This was followed by a five-year hiatus, during which China, engaged in resolving other problems, was not particularly active in the Kazakhstan oil and gas industry. A significant breakthrough occurred at the beginning of 2003 when Chinese oil companies Sinopec and CNOOC<sup>12</sup> tried to acquire a share in the Kashagan project of the BG Group Plc. But the transaction was stymied by the other participants in the project. The second attempt proved more successful. In 2003, the CNPC acquired 100% of the shares in the Northern Buzachi fields (Mangistau Region) in two stages. This impressive package was purchased from the Nimr Petroleum Company (Saudi Arabia) and Chevron Texaco (U.S.).

At the end of 2004, Sinopec purchased the First International Oil Company (FIOC) for \$160 million from Albatross Trading Limited, a mystery company located in the British Virgin Islands that was developing the Sazan-Kurak field.

The year 2005 proved to be the most productive for China, at the beginning of which CNODC<sup>13</sup> purchased Aidan Munai for \$160 million. On 15 October, 2005, KazMunaiGaz Oil Company and CNPC International signed a memorandum of understanding regulating China's purchase of a set of shares of the PetroKazakhstan Company. At the same time, China also acquired the right to a share of this company in other oil-producing joint ventures with its participation—Kazgermunai and Turgai Petroleum.

At the end of 2009, China's CITIC Group<sup>14</sup> reached an agreement on purchasing Nations Energy Company for \$1.91 billion.<sup>15</sup>

In September 2009, the China Investment Corporation (CIC)<sup>16</sup> purchased 11% of the global deposit receipts (GDR) of the KazMunaiGaz Exploration and Development Company.<sup>17</sup> In November, the Chinese National Petroleum Company CNPC E&D<sup>18</sup> and KazMunaiGaz purchased 100% of the ordinary shares of Mangistaumunaigaz from Central Asia Petroleum Ltd.; under the agreement, CNPC E&D acquired 50% minus two voting shares of the company.

China's latest acquisition in the oil and gas sector of Kazakhstan was private enterprise Emir Oil purchased by MI Energy Corporation<sup>19</sup> in February 2011.

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this company was issued a license in June 1995 for exploiting the Zhanazhol field (for 20 years), in September of the same year for the Kenkiyak post-salt field (for 20 years), and in June 1997 for the Kenkiyak pre-salt field (for 25 years) in the Aktope Region, which in no way jives with the official version that the CNPC came to the Kazakhstan oil market in 1997 after winning a tender on the privatization of Aktobemunaigaz (for more detail, see: K. Syroezhkin, *Kazakhstan-Kitai: ot prigranichnoi trgovli k strategicheskomu partnerstvu*, Book 1, *V nachale puti*, KazISS under the President of the Republic of Kazakhstan, Almaty, 2010, pp. 158-160).

<sup>12</sup> Sinopec—China Petroleum & Chemical Corporation; CNOOC—China National Offshore Oil Corporation.

<sup>13</sup> CNODC—China National Oil and Gas Exploration and Development Corporation—is a 100% subsidiary company of CNOOC—the third largest oil company in China.

<sup>14</sup> CITIC Group (China International Trust & Investment Corporation) is one of China's largest investment companies, established in 1979 and directly subordinate to the PRC State Council.

<sup>15</sup> In keeping with the agreement signed, CITIC Group pledged to offer 50% of the Nations Energy Company, after purchasing a 100% set of shares in this company, to KazMunaiGaz for \$955 million—a sum equal to half the purchase price the CITIC Group paid for 100% of the shares of Nations Energy.

<sup>16</sup> The China Investment Corporation Investment Fund was established on 29 September, 2007 especially for the foreign investments of China's accumulated international reserves. The authorized fund amounted to \$200 billion.

<sup>17</sup> The purchase was carried out through subsidiary company Fullbloom Investment Corporation, the transaction sum amounted to \$939 million.

<sup>18</sup> CNPC E&D—CNPC Exploration and Development Company Ltd.

<sup>19</sup> MI Energy Corporation is a subsidiary company of the Chinese oil and gas company, MIE Holding Corporation, which is a subsidiary of CNPC and Global Oil Corporation registered on the Cayman Islands.

According to my estimates (which are probably incomplete), more than 80 companies with a share of Chinese capital operate today in the oil and gas industry of Kazakhstan, 21 of which are producing oil at Kazakhstan's fields (see Table 1).

Table 1

**Presence of Chinese Companies in the Oil and Gas Industry of Kazakhstan  
(Oil and Gas Production, Beginning of 2011)**

Company	Shareholders	
	Chinese Companies	Other Participants
<b>Aktobe Region</b>		
CNPC-Aktobemunaigaz (since 1997)	Since June 1997—66.7% of voting shares; since April 2003, CNPC owns 85.45% of the shares (94.5% of voting shares). Including: CNPC Exploration and Development Company Ltd.—60.33%, CNPC International (Caspian) Ltd.—25.12%	The company's employees—5.02%, various physical and legal entities—9.53%
Lancaster Petroleum (since 2007)	CNPC—87.96%	
Sagiz Petroleum Company (since 2007)	CNPC—100%	
Kazakhoil Aktobe (since 2003)	CNPC—25%	KazMunaiGaz Oil Company—75%
<b>Atyrau Region</b>		
Embavedoil (since 1996)	Since 1996—50% of the shares; since the end of 2005, Satko International Limited—100%	Until the end of 2005—Kazakhstan and Vietnam—50%
Sazan-Kurak Joint Venture (since 2004)	Sinopec through its subsidiary First International Oil Company (FIOC Ltd.)—100%	
Caspian Petroleum Company (since 2004)	First International Oil Company—100%	
Adai Petroleum Company (since 2004)*	First International Oil Company—50%	RN-Kazakhstan (Russia)—50%

Table 1 (continued)

Company	Shareholders	
	Chinese Companies	Other Participants
Potential Oil (since 2006)	CNPC—100%	
<b>Kyzylorda Region</b>		
CNPC-Aidan Munai (since 2005)	CNODC—100%	
PetroKazakhstan Inc. (since 2005)	Since October 2005, CNPC International Ltd.—67% in PetroKazakhstan Inc. Since January 2007, PetroChina—67% in PetroKazakhstan Inc.	Since October 2005, KazMunaiGaz Oil Company—33% of the shares in PetroKazakhstan Inc. and 50% of the shares in Valsera Holding BV. Since September 2009—KazMunaiGaz Exploration and Production Company—33% of the shares in PetroKazakhstan Inc.
Turgai Petroleum (2005)	CNPC PetroKazakhstan Kumkol Resources—50%	LUKoil Overseas Kumkol B.V. (Netherlands)—50%
Kazgermunai Joint Venture (since 2005)	CNPC—50%	KazMunaiGaz Oil Company—50% Since June 2007, KazMunaiGaz Exploration and Production Company—50%
KuatAmlonMunai (since 2006)	CNPC—100%	
<b>Mangistau Region</b>		
Buzachi Operating Ltd. (since 2003)	CNPC International Ltd. (registered in the U.S.)—50% (before 2009), at present—75%	LUKoil—25% Mittal Investments—25% (before 2009)
Karazhanbasmunai (since 2006)	CITIC Canada Petroleum Limited—50%	KazMunaiGaz Exploration and Production Company—50%
Karakudukmunai (since 2004)	CNPC—50%	KazMunaiGaz Oil Company—50%

Table 1 (continued)

Company	Shareholders	
	Chinese Companies	Other Participants
Arman Joint Venture (since 2005)	CNPC—25%	
Mangistaumunai-gaz (since November 2009)**	CNPC Exploration and Development Company Ltd.—50% minus two voting shares	KazMunaiGaz Oil Company—50% plus two voting shares
Emir Oil (since February 2011)	MI Energy Corporation (subsidiary of MIE Holding Corporation)—100%	Emir Oil LLC belonged to B. Cherdobaev's Company BMB Munai Inc.
KazMunaiGaz Exploration and Production Company (since September 2009)	Fullbloom Investment Corporation—11%	KazMunaiGaz Oil Company—89%

\* Owing to the field's lack of prospects, FIOC and Rosneft withdrew from the project in June 2011.

\*\* The Pavlodar Refinery has been excluded from the transaction.

According to my estimates, China's share in oil production in Kazakhstan amounts to around 25-27% and in gas production to 13-15%. Of course, these figures are far from those with which the Kazakhstani opposition and some deputies "frighten" the Kazakhstani (40%), but they are quite considerable, particularly if we keep in mind the areas Chinese companies are operating in the country (see Table 2) and the fact that the oil and gas sector is the basis of Kazakhstan's economy and the main contributor of revenue to the budget.

Apart from purchasing oil and gas companies, China is exerting active efforts to develop infrastructure for delivering Kazakhstan's hydrocarbons to the PRC, as well as to reconstruct the republic's oil refineries. There are several significant projects in this area.

The first project is the Western Kazakhstan-China oil pipeline (see Map 1), the intentions to build which were first announced in 1997; the project was reanimated on 13 October, 2003,<sup>20</sup> and on 17 May, 2004, an agreement was signed on building the first section of the Atasu-Alashankou oil pipeline.

The first stage was finished on 15 November, 2005; investments amounted to \$806 million, \$700 million of which were engaged under project financing conditions backed by CNPC.

The second stage, which envisaged building the Kenkiyak-Kumkol oil pipeline, began in December 2007 and was finished in July 2009; investments amounted to around \$1 billion. At the first stage, the throughput capacity of the oil pipeline amounted to 10 million tons a year; the investment

<sup>20</sup> In March 2003, the Kenkiyak-Atyrau oil pipeline went into operation (the first joint project of KazMunaiGaz Oil Company and CNPC). In reverse operation, this oil pipeline became the first part of the large Western Kazakhstan-China oil pipeline.



Table 2

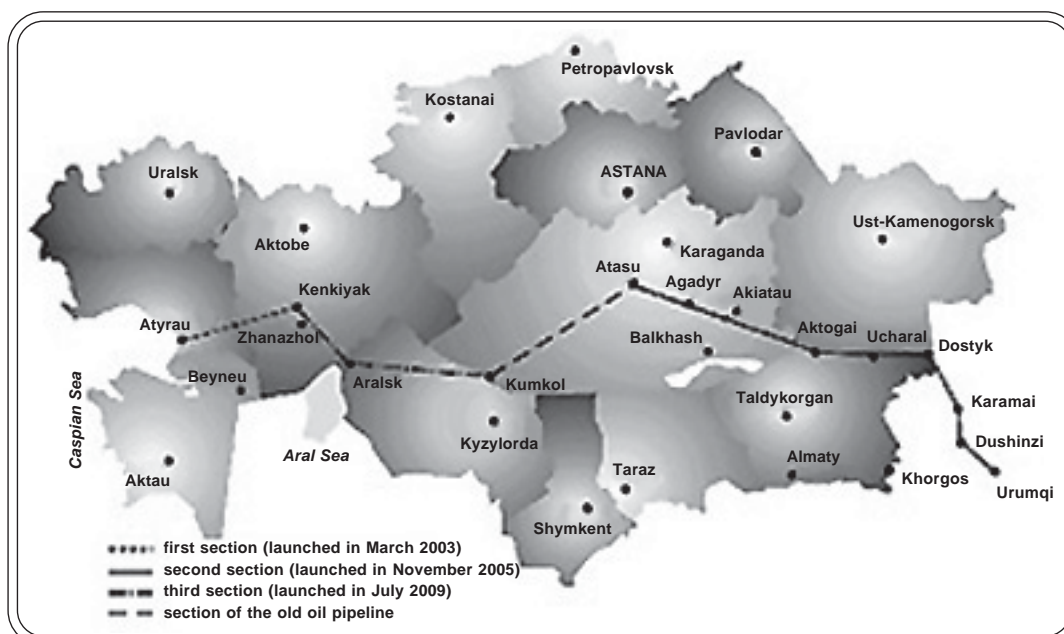
Share of Companies with Chinese Capital in Oil and Gas Production  
(by region, 2010)

Region	Total Production	Share of Companies with Chinese Capital	China's Net Share
<b>Oil Production (tons, %)</b>			
Aktobe Region	7,417,040	7,235,332	97.55
Atyrau Region	1,731,133	250,404	14.47
Kyzylorda Region	11,156,308	9,904,104	88.78
Mangistau Region	12,689,001	11,173,016	88.05
<b>Gas Production (thou. cu m, %)</b>			
Aktobe Region	3,334,517	3,181,566	95.41
Atyrau Region	23,730	4,551	19.18
Kyzylorda Region	1,606,003	1,547,755	96.37
Mangistau Region	2,399,937	754,145	31.42

*Source:* All calculations by the author.

Map 1

## Western Kazakhstan-Western China Oil Pipeline





project envisaged a further increase in its capacity: to 15.5 million tons in 2010; to 20 million tons in 2012; and to 50 million tons in 2020.<sup>21</sup>

The Kazakhstan-China Oil Pipeline Company is the owner and delivery operator, the shareholders of which are CNPC and KazMunaiGaz Oil Company on a parity basis through their subsidiary companies.

The second large project is the Central Asia-China gas pipeline (see Map 2)<sup>22</sup>; an agreement on Kazakhstan's participation in it was signed at the beginning of November 2007. In March 2008, KazTransGaz and Trans-Asia Gas Pipeline Limited (a subsidiary of CNPC) created the Asian Gas Pipeline Company on a parity basis for building and subsequent exploitation of the Kazakhstan-China gas pipeline.

According to the agreements reached, implementation of the Kazakhstan-China gas pipeline project was to be carried out in two stages. The first section of the gas pipeline, with a throughput capacity of 40 bcm a year, length of 1,333 km and diameter of 1,024/1,067 mm, was to be laid from the Kazakhstan-Uzbekistan border through Shymkent to Khorghos.

The first stage ended in July 2009 and the gas pipeline went into operation on 12 December, 2009; the cost of the project amounted to \$7.5 billion.<sup>23</sup>

The Beyneu-Bozoi-Kyzylorda-Shymkent gas pipeline is considered to be the second section; its capacity amounts to 10 bcm a year, length—1,480 km, and diameter—1,016 mm.

Implementation of this project was to begin after its economic feasibility was proven,<sup>24</sup> however, as early as 10 October, 2008, a meeting was held in Astana between Kazakhstan Prime Minister Karim Masimov and Vice President of CNPC Wang Dongjin, at which the latter confirmed the willingness of the Chinese side to finance building the second branch of the Kazakhstan-China gas pipeline—the Beyneu-Bozoi-Shalkar-Samsonovka section.<sup>25</sup>

During Nursultan Nazarbaev's visit to the PRC, which took place in mid-April 2009, KazMunaiGaz Oil Company and CNPC signed a framework agreement on extending cooperation in the oil and gas sphere and rendering assistance in obtaining loans, which presupposed China granting the Kazakh Company \$5 billion for projects in the oil and gas sphere; the matter also concerned financing the Beyneu-Bozoi-Akbulak-Shymkent gas pipeline project.<sup>26</sup> On 7 December, Nursultan Nazarbaev signed a law on ratification of the agreement on building the Beyneu-Shymkent section. The gas pipeline will be built using a loan issued by China; the estimated cost of the project amounts to \$3.5 billion.<sup>27</sup>

The third major project is associated with reconstruction of the Atyrau Oil Refinery, the tender for which was won at the end of October 2009 by Sinopec Engineering, a subsidiary of China

<sup>21</sup> See: S. Gavrichev, "Kazakhstan-Kitai-Kumkol," RusEnergy Portal, 21 May, 2004, available at [<http://www.rusenergy.com>]; in reality, 7.7 million tons of oil were pumped via the oil pipeline in 2009.

<sup>22</sup> The Central Asia-China gas pipeline, which begins in Turkmenistan, passes through Uzbekistan (two branches, a third is currently being built) and Kazakhstan (with the prospect of hooking up to the Beyneu-Bozoi-Shymkent section in Kazakhstan) to the border with China. The total length of the gas pipeline is around 7,000 km, 184.54 km of which pass through Turkmenistan, 530 km through Uzbekistan, 1,300 km through Kazakhstan, and around 4,860 km through the PRC.

<sup>23</sup> At the beginning of March 2009, B. Shaiakhmetov stated that around \$2.5 billion had been used (see: E. Butyrina, "V stroitel'stvo kazakhstansko-kitaiskogo gazoprovoda uzhe investirovana tret neobkhodimoi summy," *Panorama*, 6 March, 2009).

<sup>24</sup> See: K. Konyrova, "Kazakhstan i Kitai podpisali soglasenie o sozdanii SP po gazoprovodu Kazakhstan-Kitai," Trend Information Agency, 8 November, 2007, available at [<http://www.capital.trendaz.com>].

<sup>25</sup> See: "Vitse-prezident CNPC soobshchil o gotovnosti KNR finansirovat stroitel'stvo vtoroi nitki gazoprovoda Kazakhstan-Kitai," Kazinform Information Agency, 11 October, 2008, available at [<http://www.inform.kz>].

<sup>26</sup> See: *Ibidem*.

<sup>27</sup> According to KazMunaiGaz Chairman of the Board K. Kabyldin, "the cost of the second section of the gas pipeline will amount to 350 billion tenge" (approximately \$2.3 billion) (see: Zh. Kuzhekov, "Trubu k tsentral'noaziatskomu gazu Kitai prolozhil za rekordnye sroki," Radio Azattyk, 14 December, 2009, available at [<http://rus.azattyq.org>]).

Central Asia-China Gas Pipeline



Petroleum&Chemical Corporation (Sinopec). The project is to be implemented in 2010-2013; investments amount to \$1.04 billion; the main objective of the refinery is to extract paraxylene and benzene from oil. The planned production volume is 496,000 tons of paraxylene and 133,000 tons of benzene, as well as 200,000 tons of TC-1 reactive fuel a year.

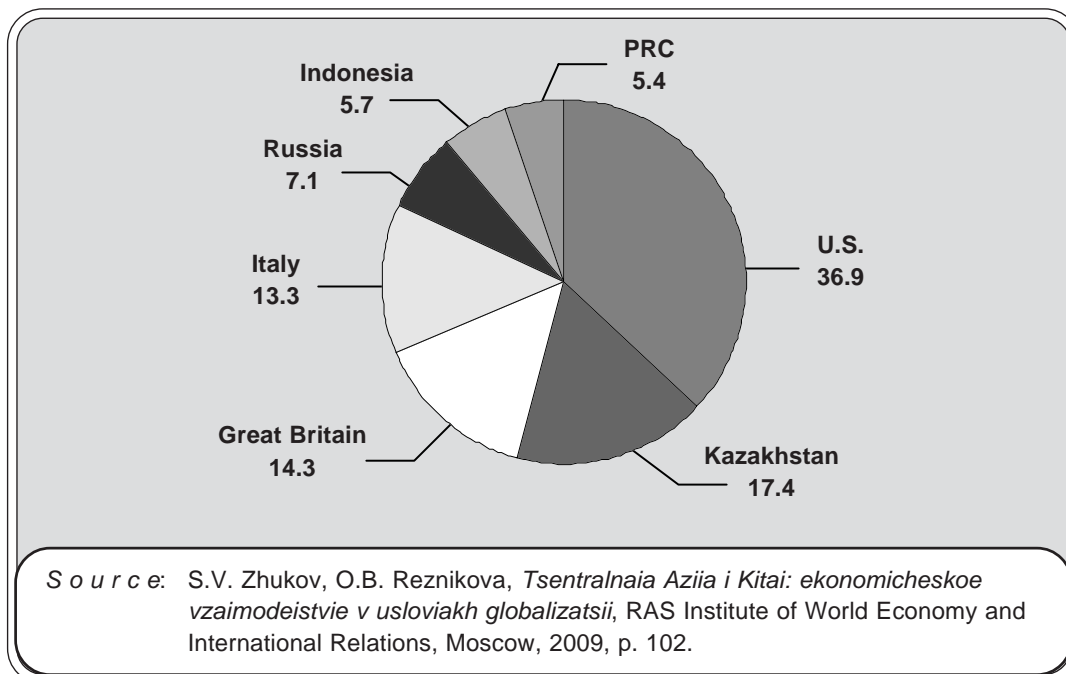
The key part of the second phase of reconstruction envisages building an aromatic hydrocarbon complex. KazMunaiGaz Trade House is the commissioner. The objective of the reconstruction is to raise the quality of gasoline to Euro-4 emission standard and obtain raw material (benzene and paraxylene) for development of the petrochemical industry. Sinopec Engineering will use ParamaX BTX technology of the Axens Company (France) for reconstructing the Atyrau Oil Refinery.

What are the specifics of China's presence in Kazakhstan's oil and gas industry?

- First, China acquired all its assets in Kazakhstan that used to belong to foreign investors at open tenders. So it is wrong to say that China is buying up Kazakhstan's oil and gas fields.
- Second, in contrast to other foreign investors, China has created joint ventures with Kazakhstan on the basis of the large facilities it has purchased. This is a great advantage for Kazakhstan's economy and for raising the significance of the KazMunaiGaz Oil Company, but only if these joint ventures are used intelligently.
- Third, it should be kept in mind that the Chinese companies functioning in Kazakhstan's oil sector do not operate under production sharing agreements, but in keeping with the provisions of current tax legislation. Owing to this, Kazakhstan's tax agencies have very few complaints against them.

Figure 1

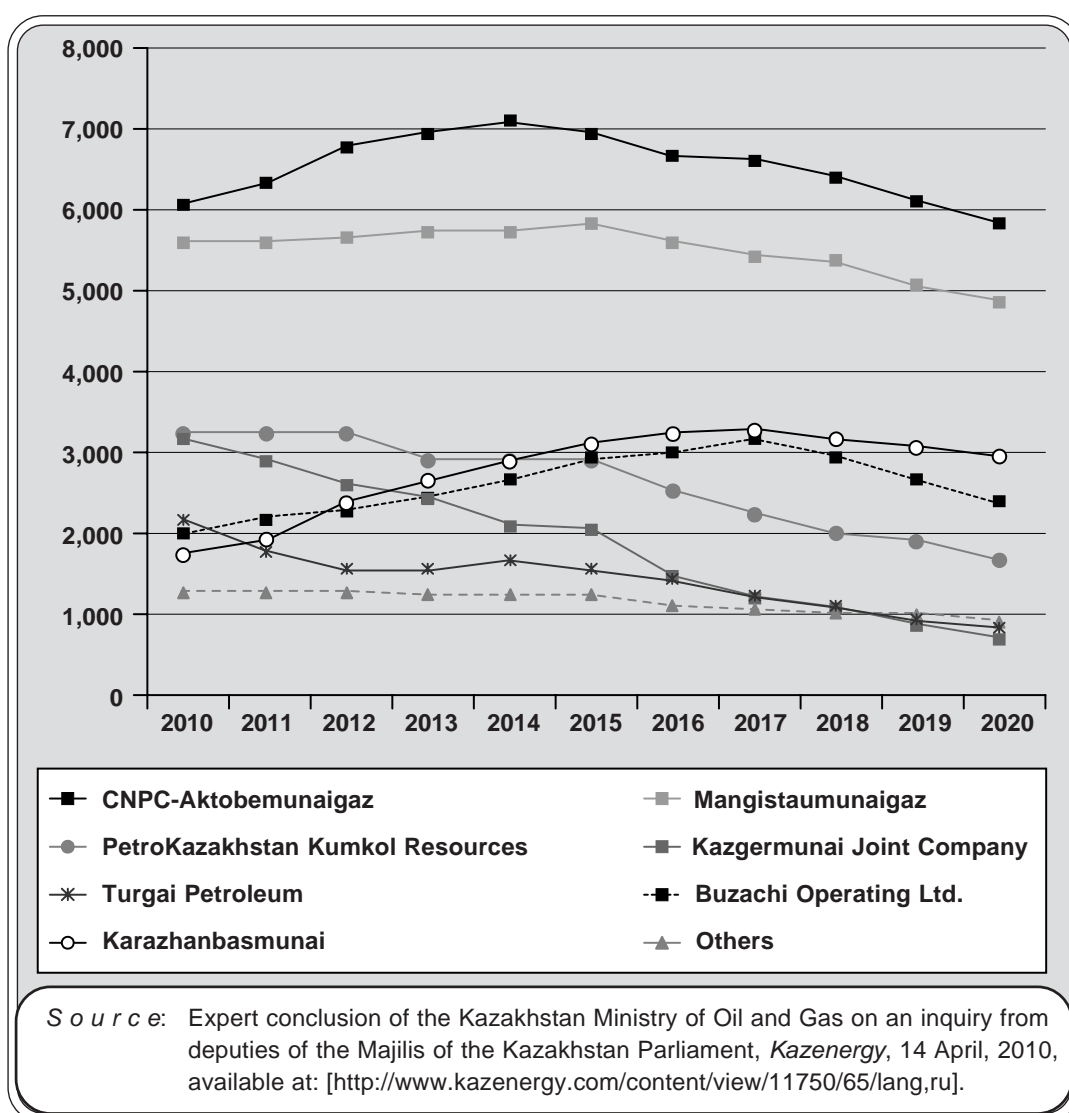
Distribution of Oil Reserves in Terms of Country Affiliation of Production Companies in Kazakhstan at the Beginning of 2008 (%)



- Fourth, despite the increase in number of companies with a share of Chinese capital operating in Kazakhstan's oil and gas sector, the wider range of their activity, and increase in production volumes, China's share in in-place and recoverable reserves is insignificant (see Fig. 1).
- Fifth, a large part of the fields purchased by China between the end of 1980 and beginning of the 1990s are under development and, according to the forecasts of KazMunaiGaz specialists, the share of companies with Chinese capital in oil and gas production volumes in Kazakhstan will drop in the future (see Fig. 2).

Figure 2

Oil Production Between 2010 and 2020 by Companies with the Participation of Chinese Investors (thou. tons)



- Sixth, companies with a share of Chinese capital cannot be accused of giving preference to Chinese citizens when hiring employees. According to Kazenergy, on 1 January, 2010, the number of staff hired on contract at enterprises with a share of Chinese capital amounted to 17,733 people; 17,519 of them (98.8%) were citizens of Kazakhstan.<sup>28</sup>

According to Head of KazMunaiGaz Kairgeldy Kabyldin, only 25 of PetroKazakhstan's employees are Chinese specialists (with a total staff of 2,360 people), which amounts to only 1.1%. There are 20 Chinese managers (4.5%) among the 440 employees in the company's head office.

Among Kazgermunai's total staff of 660 people, only 12 (1.8%) are Chinese; there are 11 Chinese (around 5%) among the 200 office employees.

Among the company's total staff of 6,000 people, 33 Chinese work in the management of Mangistaumunaigaz (0.6% of the total staff and 2.2% of the company's administration).

There are 21 (1%) Chinese employees among Karazhanbasmunai's total personnel of 2,100.<sup>29</sup>

It should also be noted that the work of Chinese companies operating in Kazakhstan's oil and gas sector differs little from the activity of other foreigners, particularly with respect to the increase in production volumes and oil and gas export (of course, when this is advantageous).

Despite the fact that Chinese companies are very active in performing their investment obligations, they take little part in resolving local social problems, however it would not be fair to accuse them of this. Resolving social problems is the responsibility of the government structures, which should establish regulations for foreign investors that primarily meet the interests of the people of Kazakhstan. So all complaints should be redirected toward the government.

We ourselves are to blame for many of our misfortunes, while a Chinese bogeyman is used to distract public opinion away from the true source of the problems. One of Confucius' sayings is appropriate in this context, "Don't complain about the snow on your neighbor's roof when your own doorstep is unclean."

## Uzbekistan

Contacts between Uzbekistan and China in the oil and gas sphere began after Islam Karimov's official visit to China in May 2005. During this visit, an agreement was signed on Chinese investments in the exploitation of Uzbek oil fields; it envisaged CNODC carrying out geological exploration work at 23 fields in the Ustiurt, Bukharo-Khivin, and Ferghana areas. The UzChina National Petroleum Corporation was established on a parity basis with an authorized capital of around \$96 million for working at these fields. It is presumed that the Chinese company will invest around \$600 million in the project over 25 years.<sup>30</sup>

In the spring of 2007, CNPC Silk Road (a subsidiary of CNODC) began executing an agreement on carrying out geological exploration at five investment deposits in 2006-2010 signed in 2006 between Uzbekneftegaz and CNODC. The total volume of investments for carrying out geological exploration work, which will go on for 5 years, will amount to \$208.5 million, \$88.5 million of which

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<sup>28</sup> See: Expert conclusion of the Kazakhstan Ministry of Oil and Gas on an inquiry from deputies of the Majilis of the Kazakhstan Parliament, *Kazenergy*, 14 April, 2010, available at [<http://www.kazenergy.com/content/view/11750/65/lang.ru/>].

<sup>29</sup> See: "Glava KMG schitaet razgovory o "kitaizatsii" neftegazovoi otrasli RK preuvelichennyimi," *Novosti-Kazakhstan Information Agency*, 18 February, 2010, available at [<http://www.newskaz.ru/>].

<sup>30</sup> On 10 September, 2009, Uzbekneftegaz and CNODC signed a Memorandum of Understanding in Beijing, in compliance with which 23 fields situated on the Ustiurt plateau were given to the UzChina National Petroleum Corporation (see: "Kitaiskie investory osvivaivaiut uzbekskii rynok," *IWPR*, 28 September, 2009, available at [<http://www.iwpr.net/>]).

will be utilized under a minimum work program; there are plans to drill 15 exploration and 12 confirmation wells. When new fields are found in the regions being explored, the Chinese company and Uzbekneftegaz will open a joint venture on a parity basis to engage in their exploitation.<sup>31</sup>

In 2008, Uzbekneftegaz and CNPC signed the deed of incorporation and charter of the Mingbulakneft enterprise in order to carry out further joint exploration and exploitation of the Mingbulak field in the Namangan Region. Andijanneft and CNODC were the founders of the joint venture. The joint venture was established on a 50/50 basis.<sup>32</sup>

At the end of 2008, talks were held between Uzbekneftegaz and CPTDC<sup>33</sup> on the possibility of arranging for the manufacture of pipes and machine-tools in Uzbekistan for the oil and gas industry. The project is to be carried out at the enterprises of Uzneftegazmash.<sup>34</sup>

On 30 April, 2007, an agreement was signed between the two countries on Uzbekistan's participation in building the Central Asia-China gas pipeline. The Asia Trans Gas joint venture was established in mid-April 2008 for planning, building, and operating the Uzbek section of the gas pipeline.

It was not initially planned to deliver Uzbek gas along this gas pipeline, but as early as the beginning of November 2009, the governments of Uzbekistan and China came to terms about the export of up to 10 bcm of Uzbek gas a year to the PRC (after the second branch of the gas pipeline goes into operation).<sup>35</sup>

In June 2010, during Hu Jintao's visit to Tashkent, Uzbekneftegaz and CNPC signed a framework agreement on the buy-sell of natural gas.<sup>36</sup> On 25 December, 2010, the second branch of the Uzbek section of the Central Asia-China gas pipeline went into operation. At the beginning of 2011, it became known that Uzbekistan intended to implement a project before 2014 to build the third branch of the Uzbek section of the Central Asia-China gas pipeline and increase the volume of Uzbek gas deliveries to China to 25 bcm<sup>37</sup> (see Table 3).

Table 3

**Large Projects in Uzbekistan's Oil and Gas Industry with  
the Participation of Chinese Companies**

Investor	Year	Project	Capital Investments (\$m)	Type of Activity	Joint Venture
CNPC, Uzbekneftegaz	2005	23 fields at Ustiurt and in the Bukhara-Khivin Region	600.0	Exploration and exploitation	UzChina National Petroleum Corporation

<sup>31</sup> See: "CNPC mozhnet vo vtoroi polovine 2009 goda pristupit k bureniu skvazhin na mestorozhdenii v Uzbekistane," Information Agency 12.uz, 25 March, 2008, available at [<http://www.12.uz>].

<sup>32</sup> See: "Uzbekneftegaz i kitaiskaia CNPC sozdaiut novoe SP dlia razrabotki Mingbulaka," Internet portal UzReport.com, 17 October, 2008, available at [<http://www.uzreport.com>].

<sup>33</sup> CPTDC—China Petroleum Technology & Development Corporation (a subsidiary of CNPC).

<sup>34</sup> See: "Kitaiskaia CPTDC khochet sozdat proizvodstvo neftegazovykh trub v Uzbekistane," Information Agency 12.uz, 17 December, 2008, available at [<http://www.12.uz>].

<sup>35</sup> See: "V Kitai budet postavliat'sia ezhegodno do 10 mlrd kubometrov Uzbekskogo gaza," Portal Vesti.uz, 4 November, 2009, available at [<http://www.vesti.uz>].

<sup>36</sup> See: D. Azizov, "Uzbekneftegaz i CNPC podpisali gazovoe soglashenie," Portal Trend, 10 June, 2010, available at [<http://ru.trend.az>].

<sup>37</sup> See: "Uzbekistan ob'iavil, chto do 2014 goda postroit tretiu ochered svoego uchastka gazoprovoda Tsentralnaia Azia-Kitai," Novosti-Kazakhstan, 1 February, 2011, available at [<http://www.newskaz.ru>].



Table 3 (continued)

Investor	Year	Project	Capital Investments (\$m)	Type of Activity	Joint Venture
CNPC, Uzbekneftegaz	2006	Arniaz, Sardob, Markovskoe, Umid, Ustiurt	208.5	Exploration and exploitation	UzChina National Petroleum Corporation
Dong Sheng	2007	Fields in the Ferghana Valley	113.0	Exploration and exploitation	UzDongSheng
CNPC, Uzbekneftegaz	2007 2010 2014	Planning, building, and operation of the Uzbekistan-China gas pipeline	1 branch— 2,900 2 branch— 3,000 3 branch— 2,200	Gas transit	Asia Trans Gas
CNODC, Andijanneft	2008	Mingbulak field in the Namangan Region		Exploration and exploitation	Mingbulakneft Joint Venture on a 50/50 basis
CPTDC, Uzbekneftegaz	2008	Production of pipes and machine-tools for the oil and gas industry		Production	A few joint ventures based on enterprises of Uzneftegaz-mash

## Turkmenistan

China's relations with Turkmenistan reached a new level of development after Saparmurat Niyazov's visit to the PRC at the beginning of April 2006. On 3 April, talks were held between the head of the Turkmen state and Hu Jintao, which ended in an agreement on deliveries of Turkmen gas to China<sup>38</sup>; it envisaged building a main Turkmenistan-China gas pipeline and China's purchase of 30 bcm of gas a year for 30 years at the Turkmenistan border as soon as it went into operation (2009). In so doing, it was specified that Turkmenistan would deliver natural gas via the Turkmenistan-China gas pipeline in the designated amounts and by the set dates.

<sup>38</sup> The question of organizing deliveries of Turkmenistan gas to China was discussed as early as 1996. At that time, a consortium of China's CNPC, Japan's Mitsubishi, and America's Exxon drew up a feasibility report for a pipeline project from Turkmenistan (the Dauletabad field) through Uzbekistan and Kazakhstan to the PRC, South Korea, and Japan. But owing to the low world gas prices in those years and high cost of building the pipeline (\$9 billion), the project was declared unprofitable and work on it was halted. As world gas prices rose, interest in the renewed project began to grow again. At the request of Turkmenistan, in 2003-2005, Chinese companies carried out service work on the right-hand bank of the Amu Darya which confirmed the high viability of these sections.



In order to supply the gas pipeline with raw material, the sides agreed to jointly engage in exploration and exploitation of all the fields and areas on the right-hand bank of the Amu Darya River (under production sharing agreements). If additional volumes of gas are needed to fill the gas pipeline, Turkmenistan guarantees deliveries from other fields.

In accordance with the agreement, the Chinese side was to determine the procedure for purchasing natural gas from Turkmenistan; “the price of natural gas will be set on a reasonable and fair basis, based on a comparable price in the international market. Payment will be made exclusively in U.S. dollars.” Finally, the Chinese side “will conduct consultations with the governments of the transit countries in order to reach agreements on mutually advantageous natural gas transit conditions through their territories.”<sup>39</sup>

The agreement also envisaged that the following agreements would be entered by the corresponding organizations of the sides before 31 December, 2006:

- agreement on joint exploration and exploitation of gas fields defining the main framework of cooperation with participation of the Chinese organization for supplying the gas pipeline with raw material;
- agreement on the main principles for building the gas pipeline and drawing up its feasibility report;
- agreement on the buy-sell of gas that defines the specific amounts of gas purchases by year, as well as sets forth all the organizational, legal, financial, and other conditions for regulating the sale of Turkmen natural gas to the PRC.

All the above-listed agreements were entered rather quickly. Laying of the gas pipeline was to be finished in 2008 and gas export to begin on 1 January, 2009. China committed to financing the entire project using its own funds and building the necessary infrastructure in its territory.<sup>40</sup> The fields on the right-hand bank of the Amu Darya with estimated resources of 1.7 tcm were determined as the raw material base and Samandepa was to be the primary field.

On 17 July, 2007, Turkmenistan’s new president, Gurbanguly Berdimukhammedov paid an official visit to China. During the visit, a production sharing agreement was signed between the Turkmenistan State Agency for Hydrocarbon Resources and CNPC at the Bagtyyarlyk gas field on the right-hand bank of the Amu Darya, which was to be the raw material base for building the gas pipeline from Turkmenistan to China. The production sharing agreement envisaged seismological and drilling work, which would make it possible to prepare newly discovered deposits for exploitation and join them to the gas pipeline at the second stage. The route of the gas pipeline was also coordinated. CNPC and Turkmengaz signed a 30-year contract for the delivery of 30 bcm a year (beginning in 2009). Beijing also issued Ashgabat a soft loan to be used for purchasing Chinese drilling equipment.<sup>41</sup>

At the beginning of 2008, construction began of the Turkmen section of the Central Asia-China gas pipeline, and in August Gurbanguly Berdimukhammedov held a meeting in Beijing with Head of CNPC Jian Jiemin and General Director of CNPC International (Turkmenistan) Liu Gumxun, at which

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<sup>39</sup> See: General Agreement between the Government of Turkmenistan and the Government of the People’s Republic of China on Implementation of the Turkmenistan-China Gas Pipeline Project and Sale of Natural Gas from Turkmenistan to the People’s Republic of China. Beijing, 3 April, 2006, *Neytralnyy Turkmenistan*, 4 April, 2006.

<sup>40</sup> On 27 August, 2007, the CNPC announced that building would start of the second branch of the West-East gas pipeline for transporting gas coming from Central Asia. The gas pipeline was to be finished by the end of 2008 and launched at its full capacity in 2010. The rated capacity of the gas pipeline is 30 bcm a year. The gas pipeline begins at the Khorgos check point, passes through Xian, Nanchang, and on south to Guangzhou and east to Shanghai. The length of the gas pipeline is 4,859 km, and with all its branches, more than 7,000 km (see: *Xinjiang nianjian, 2008* (Xinjiang Yearbook for 2008), Urumqi, 2008, p. 168.

<sup>41</sup> See: “Dogovor Turkmenii s Kitaem: Porazhenie ‘Gazproma’ ili obmen rynkami?” *Gazeta*, 19 July, 2007.

the Chinese partners were asked to consider the possibility of buying another 10 bcm of natural gas a year (over and above the 30 bcm envisaged in the interstate agreement). He also spoke in favor of extending cooperation with CNPC by implementing new projects, in particular on building gas refineries.<sup>42</sup>

On 29 August, 2008, talks were held in Ashgabad between the President of Turkmenistan and PRC Chairman Hu Jintao, who was in Turkmenistan on an official visit. The talks ended in signing a set of five bilateral documents, including a joint statement and Framework Agreement on Extending Cooperation in the Gas Industry. It was officially stated that instead of the 30 bcm agreed upon earlier, 40 bcm of Turkmen natural gas would be delivered every year to the PRC.<sup>43</sup>

However, at the beginning of 2009, Turkmenistan unexpectedly postponed the date for beginning gas export to China. A CNPC delegation headed by Vice President Wang Dongjin came to Ashgabad in March, which succeeded in convincing the Turkmenistan leadership to begin exploitation of the gas pipeline at the end of the year; the arguments they presented proved sufficiently persuasive. According to the company's plans, by the end of the year CNPC was to build a gas refinery at the Samandepi field with a capacity of 5 bcm, a second industrial gas treatment complex with a capacity of 8 bcm was to be put into operation, which was to be built at the promising the Altyn Asyr group of fields (this was planned for 2010); a total of 30 wells (23 restored and 7 new) were to be ready by the end of September 2009 at the Samandepi field. Construction of the corresponding ground infrastructure, including a gas transportation and collection system, has been actively going on; 40% of the total amount of the planned work has already been carried out.<sup>44</sup>

At the beginning of June 2009, another brick was laid in the energy relations between China and Turkmenistan: Deputy Government Representative T. Tagiev said that an agreement had been reached on China issuing a targeted loan of \$3 billion for industrial exploration of the South Iolotan field. The loan conditions were not specified.<sup>45</sup>

On 29 December, 2009, with reference to a source in the Turkmen government, the Reuters Agency stated that China's CNPC, South Korea's LG International Corporation and Hyundai Engineering Co., Gulf Oil from the UAE, and Petrofac, quoted on the London Stock Exchange, had won the tender for exploiting the largest gas field in Turkmenistan, South Iolotan, and building gas refineries. The total cost of the contracts amounts to \$9.7 billion. The contract was signed on the part of CNPC for a sum of \$3.128 billion, on the part of Petrofac International (UAE) for \$3.979, on the part of GulfOil & Gas (UAE) for \$1.150 billion, and on the part of the South Korean companies LG International Corporation and Hyundai Engineering Co. for \$1.485 billion.<sup>46</sup>

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<sup>42</sup> See: "Kitayskiy otrezok gazoprovoda Turkmenistan-KNR polnostiu postroen," Turkmenistan.Ru Agency, 9 August, 2008, available at [<http://www.turkmenistan.ru/>].

<sup>43</sup> See: "Hu Jintao v gostiakh u G. Berdymukhammedova," Turkmenistan.Ru Agency, 30 August, 2008, available at [<http://www.turkmenistan.ru/>].

<sup>44</sup> See: "V Ashkhabade proshli peregovory po gazoprovodu Turkmenistan-Kitai," Rusenergy.com., 31 March, 2009, available at [<http://www.rusenergy.com/>]; "Kitaiskaia CNPC postroit v Turkmenistane gazopererabatyvaiushchii zavod moshchnosti 5 mlrd kubov," CA-news Agency, 7 January, 2009, available at [<http://www.ca.news.org/>].

<sup>45</sup> See: N. Grib, "Turkmenskiy gaz dobudut za kitayskie dengi," *Kommersant*, 8 June, 2009; in terms of the reserves confirmed at the beginning of 2009 by Gaffney, Cline & Associates (Great Britain), South Iolotan is one of the four largest fields in the world—its hypothetical reserves amount to 4.7-14 tcm, which is comparable to the Shtokman gas condensate field in the Arctic (Russia) or South Pars (Iran) (see: T. Milacheva, "Krupnee, chem Shtokman," *PBK-daily*, 20 February, 2009). At the beginning of October, this information was called into question, a repeat audit and the exploratory drilling carried out showed that the reserves at this field are 2-3-fold lower than announced previously (see: A. Kliuchkin, "Turkmenskaia skazka," Internet-portal Lenta-ru, 13 October, 2009, available at [<http://www.lenta.ru/>]).

<sup>46</sup> See: "Kitai v 2013 godu poluchit gaz iz krupneishego mestorozhdenia Turkmenii," Regnum Information Agency, 8 March, 2011, available at [<http://www.regnum.ru/>]; "Turkmeniia otdala gazovye kontrakty inostrantsam," *Kommersant*, 31 December, 2009.

At the end of June, State Council Vice Premier Li Keqiang visited Turkmenistan where he signed a set of agreements with Gurbanguly Berdymukhammedov that envisaged regulations for establishing a gas union between Beijing and Ashghabad. The sides did not reveal the details of the signed documents. The Xinhua Agency limited itself to saying that agreements were entered on cooperation between the PRC and Turkmenistan in the gas sphere, as well as on financial cooperation matters. It appears that mutual understanding was also reached on the price at which China will purchase Turkmen gas. At any rate, at the beginning of 2010, the Russian press announced, as already mentioned, that China paid \$120 per thousand cubic meters of Turkmen gas, while Iran paid \$170 for it, and Russia \$190.<sup>47</sup>

On 14 December, 2009, a ceremony was held for launching the Central Asia-China gas pipeline attended by Hu Jintao, Islam Karimov, and Nursultan Nazarbaev, who came to Turkmenistan, which shows the high significance of this event.

In July 2010, member of the Standing Committee of the CPC Central Committee Politburo He Guoxin visited Turkmenistan. At the end of the talks with Gurbanguly Berdymukhammedov, he confirmed the previously reached agreements on building the second branch of the gas pipeline and increasing the deliveries of Turkmen gas to 40 bcm a year, as well as China's proposal to increase the Central Asia-China pipeline throughput capacity to 60 bcm, of which the Turkmen share will amount to more than 50 bcm a year.<sup>48</sup>

In August 2010, information appeared with reference to Turkmen sources that Gurbanguly Berdymukhammedov had instructed the heads of the republic's oil and gas industry to hold talks with China Development Bank on acquiring a soft loan of \$4.1 billion for further construction of production facilities at the South Iolotan field. A corresponding loan agreement between the China Development Bank and Turkmengaz was signed in April 2011; the Petrochina Corporation vouched for repayment by means of deliveries of Turkmen gas to China<sup>49</sup> (see Table 4).

Table 4

**Large Projects in the Oil and Gas Industry of Turkmenistan with  
the Participation of Chinese Companies**

Investor	Year	Project	Capital Investments	Type of Activity	Joint Venture
Sinopec	February 2007	Drilling 6 wells with a rated depth of 3.1 km at the Yashildepe field	\$42.3 million		With Turkmenneft
CNPC	May 2007	Drilling 12 exploratory wells at the South Iolotan field in 12 years	\$1.5 billion	Exploration	With Turkmenneft

<sup>47</sup> See: N. Grib, "Turkmenskiy gaz podelili na troikh," *Kommersant*, 15 April, 2010.

<sup>48</sup> See: Ia. Khummedov, "Kitai pokupaet Turkmenistan," *Vremya Vostoka Portal*, 5 July, 2010, available at [<http://www.easttime.ru>].

<sup>49</sup> See: A. Grivach, "Gaz v obmen na dengi. Kitai daet Turkmenii 4 mlrd doll. v schet budushchikh postavok," *Moskovskie novosti*, 28 April, 2011.

Table 4 (continued)

Investor	Year	Project	Capital Investments	Type of Activity	Joint Venture
CNPC International	July 2007	Exploration and exploitation of the Bagtyarlyk and Samandepo fields, as well as the adjacent areas, building infrastructure		Exploration and exploitation	CNPC International (Turkmenistan)
CNPC International	July 2007	Building and operating the Turkmenistan-China gas pipeline	€395 million		CNPC International (Turkmenistan)
Eximbank PRC	November 2007	Reconstruction of the Maryazot Production Organization	20-year loan at a 3% interest rate for \$239,358,000	Production	
Eximbank PRC	November 2007	Building a glass plant	20-year loan at a 3% interest rate for \$60,642,000		
CNPC/CPTDC	December 2009	Industrial exploitation of the South Iolotan field	\$3.13 billion	Exploration and exploitation	
Petrochina/China Development Bank	April 2011	Industrial exploitation of the South Iolotan field	\$4.1 billion	Exploration and exploitation	

Thanks to all these contracts, China has become not only the largest investor in Turkmenistan's economy, but also the main consumer of Turkmen gas, whereby at prices much lower than the market level. It is highly questionable whether this cooperation is advantageous to Turkmenistan, but the fact remains.

## Tajikistan

China is just as interested in the energy and infrastructure possibilities of Tajikistan, relations with which were invigorated in 2004 when Hu Jintao announced that the PRC was willing to issue privileged buyer credits to the SCO member states; at that time, the republic's government quickly drew up 53 proposal projects for a total of \$1 billion.

In March 2006, the government of Tajikistan and China's Eximbank signed a memorandum of understanding. Three major projects were approved (building two high-voltage power transmission lines, Lolazor-Khatlon and South-North, and building the Dushanbe-Khujand-Chanak highway) and tenders were organized for their implementation among Chinese companies.

On 19 April, 2006, the Barki Tojik Company (Tajikenergo) and the China Theban Electric Apparatus Stock Co. (CTEAS) signed two contracts in Dushanbe for a total of \$340 million, which envisaged building the 350-km 500 kV South-North power transmission line (\$281 million) and the 93-km 220 kV Lolazor-Khotlon power transmission line (\$9 million). On 16 September, President Emomali Rakhmon and PRC Prime Minister Weng Jiabao took part in the official ceremony to mark the beginning of construction of the 500 kV South-North power transmission line.

In November 2006, China's Sinohydro Corporation announced that it was willing to participate in implementing the project to build a hydropower plant on the Zeravshan River. In 2007, the contract was signed, in compliance with which the company committed itself to build the Zeravshan Hydropower Plant with a capacity of 150 MW and a 60-km 220 kV power transmission line from the power plant to the city of Panjakent. A Chinese loan of \$200 million was issued for the construction for 25 years at a 1% annual interest rate; the project implementation period was 2007-2010. In March 2007, it was announced that specialists from Sinohydro Corporation had finished drawing up the feasibility report for construction of the Yavan Hydropower Plant, and as early as April the Tajikistan Ministry of Finance and China's Eximbank would sign the corresponding credit agreement. However, the agreement was never signed.

According to Tajik experts (who were not far from the truth), political motives interfered with the transaction: busy with trying to establish gas relations with Uzbekistan, China decided to avoid coming to clashes with it over its participation in projects to build hydropower plants in Tajikistan.<sup>50</sup>

At the beginning of June 2009, a large Chinese delegation headed by CPC Central Committee Politburo member Wang Lequan visited Dushanbe. The visit ended in the signing of several agreements on cooperation, including an Agreement between the Tajik Ministry of Energy and Industry and CTEAS on building the Nurabad-1 Hydropower Plant on the Khingob River (capacity 350 MW, beginning of construction—2010, amount of investments—\$560 million), an Agreement between the Tajik Ministry of Energy and Industry and CTEAS on building a Central Heating and Power Plant in Dushanbe (capacity 200 MW, amount of investments—\$400 million), and an Agreement between Barki Tojik and CTEAS on additional work for the construction of the Lolazor-Khatlon and South-North power transmission lines (additional investments—\$61 million).<sup>51</sup>

Apart from the projects to build power transmission lines, none of these agreements have yet been implemented. The same reason is given for this delay—regard for Uzbekistan's opinion, which is expressing concern about the possible cutback in water supplies to the republic.

At the end of November 2010, PRC State Council Premier Weng Jiabao paid an official visit to Tajikistan. One of the documents signed during the visit envisages issuing Tajikistan a soft loan of more than \$37 million from China's Eximbank for building the 220 kV Khujand-Ayni power transmission line in the Sogd Region. Building will be carried out by CTEAS, a company that has already recommended itself in Tajikistan.<sup>52</sup>

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<sup>50</sup> See: R.G. Abdullo, "Tadzhiksko-kitayskie otnosheniia: nekotorye niuansy," Portal Centrasia.ru, 6 May, 2011, available at [<http://www.centrasia.ru>].

<sup>51</sup> See: A. Iuldashev, "Wang Lequan v Dushanbe," *Azia-Plus*, 5 June, 2009.

<sup>52</sup> See: R.G. Abdullo, "Tadzhiksko-kitayskie otnosheniia: nekotorye niuansy;" N. Pirnazarov, "Tadzhikistanu nado byt bolee ostorozhnym k prozhorlivoy ekonomicheskoy akule Kitaia," CA-news Agency, 26 November, 2010, available at [<http://www.ca-news.org>].

Another loan agreement for \$26.5 million was signed in September 2011. The loan was issued by China's Eximbank; it was to be used to build the new Sogd-500 substation for the 500 kV South-North power transmission line.<sup>53</sup>

This is all well and good, and Tajikistan does indeed need power transmission lines and hydro-power plants. But the question is how is it going to pay back the loans? According to the Tajik Minister of Finance, Chinese loans account for around 36.6% of the total amount of the republic's external debt, which had reached \$1 billion 790.45 million by 1 October, 2010<sup>54</sup> (see Table 5).

Table 5

**Large Projects in the Oil and Gas Industry of Tajikistan with the Participation of Chinese Companies**

Project	Dates	Company	Financing
High-voltage South-North power transmission line (PTL-500)	2006-2010	CTEAS	\$281 + 61 million loan from Eximbank
High-voltage Lolazor-Khatlon power transmission line (PTL-220)	2006-2008	CTEAS	\$59 million loan from Eximbank
High-voltage Khujand-Ayni power transmission line (PTL-220)	Beginning-2011	CTEAS	\$37 million loan from Eximbank
Sogd-500 substation for the 500 kV South-North power transmission line	Beginning-2012	CTEAS	\$26.5 million loan from Eximbank
Building the Zeravshan Hydropower Plant with a capacity of 150 MW	Beginning-2008	Sinohydro Corporation	\$200 million loan from Eximbank
Building the Nurabad-1 Hydropower Plant on the Khingob River with a capacity of 350 MW	Beginning-2010	CTEAS	\$560 million loan from Eximbank
Construction of a central heat and energy plant in Dushanbe with a capacity of 200 MW	Beginning-2010	CTEAS	\$400 million loan from Eximbank

## Kyrgyzstan

China's interest in Kyrgyzstan is associated not so much with energy as primarily with transportation and logistics projects. This is explained by the fact that Kyrgyzstan is chiefly a transshipment base for Chinese goods intended for sale in the Central Asian markets and partially in Russia. Nevertheless, China is taking part in implementing several energy projects in Kyrgyzstan.

In 2004, China and Kyrgyzstan entered into partnership to build two hydropower plants on the Naryn River with investments totaling around \$2 billion. However, these agreements were cancelled owing to the revolutionary uprisings in Kyrgyzstan.

<sup>53</sup> See: A. Iuldashev, "Kitai vydelaet okolo \$30 mln na obespechenie energonezavisimosti Tadjikistana," Information Agency Asia-Plus, 3 October, 2011, available at [<http://www.news.tj>].

<sup>54</sup> See: N. Pirnazarov, op.cit.



In August 2006, the energy industries of China (the State Grid Corporation of China) and Kyrgyzstan (Electric Power Plants and the National Electricity System of Kyrgyzstan Company) signed a protocol of intent on long-term cooperation which envisaged mutually beneficial interest in building and reconstructing power supply networks and electric power stations, as well as in exchanging technical experience.

The cascade of the Saryjaz and Kamaratin hydropower plants, building power transmission lines in Kashgar, building a coal-operated central heat and power station, and reconstructing the Uchkurgan hydropower plant and central heat and power station in Bishkek can be included among the projects Chinese investors are interested in.

In October 2009, one of China's largest companies, Tebian Electric Apparatus Stock Co. (TBEA), and the National Electrical Grid of Kyrgyzstan Company signed an agreement on cooperation in Beijing. It envisages China's participation in implementing the project to build the Datka substation and 500 kV Datka-Kemin power transmission line. The project costs \$342 million. Building of the power transmission line was to begin in 2010,<sup>55</sup> but there are no reports that it has actually begun.

Kyrgyzstan is counting on China's assistance in rehabilitating and modernizing the central heat and power station in Bishkek, as well as in carrying out R&D work and delivering equipment from Chinese plants for hydraulic units No. 2 and No. 3 of Kamaratin-2 Hydropower Plant (the first hydraulic unit was delivered earlier from Russia, which was also supposed to deliver the second and third hydraulic units). Kyrgyzstan believes that participation in building Kamaratin-2 Hydropower Plant could be a successful investment project for the PRC in the republic; this opinion is also shared by the Chinese side. "We can already begin cooperating in projects to build Kamaratin-2 Hydropower Plant and modernizing the Bishkek central heat and power station," said PRC Deputy Commerce Minister Chen Jiang at a meeting with Maxim Bakiev in January 2010.<sup>56</sup>

In May 2011, a protocol of intent was signed with Sinohydro, China's state building company, on building a hydropower plant on the Suusamyr River.<sup>57</sup> At the beginning of September 2011, an agreement was reached with the Shenxi Company (the coal and chemical industry) on building an oil refinery in Kara-Balta; the anticipated amount of investment is \$600 million.<sup>58</sup>

## Conclusion

What conclusions can be drawn from the above? First, there can be no doubt that China has come to Central Asia with serious intentions and for the long haul, and this "love affair" appears to be mutual, since in most cases (particularly after 2005) the political establishment of the region's countries have been supporting Chinese companies at the highest level. Nor is there any doubt that China will augment its economic presence in Central Asia, including in the energy sphere.

Second, it stands to reason that China's energy policy is aimed at tapping the hydrocarbon resources of Central Asia for servicing its own energy needs in the mid and especially the long term. But

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<sup>55</sup> See: D. Karimov, "Kitayskiy opyt kak model dlia ekonomicheskogo razvitiia Kyrgyzstana," Information Agency 24.kg, 15 January, 2010; idem, "Okeyla, mister Chudinov!" Information Agency 24.kg, 16 October, 2009, available at [<http://www.24.kg>].

<sup>56</sup> See: D. Karimov, "Kitayskiy opyt kak model dlia ekonomicheskogo razvitiia Kyrgyzstana."

<sup>57</sup> See: Iu. Mazykina, "V Kyrgyzstane s kitayskim investorom podpisan protokol o namereniiakh stroitelstva GES na reke Suusamyre," Information Agency 24.kg, 31 May, 2011.

<sup>58</sup> See: "Kitay postroit v kyrgyzskoy Kara-Balte NPZ za \$600 mln," Portal Tazabek, 3 September, 2011, available at [<http://www.tazabek.kg>].



nor can we ignore the fact that the policy being pursued by the PRC also meets the interests of the region's states, which are striving to diversify the sources of investment in their energy sector and the directions for transporting hydrocarbons and energy.

When evaluating China's presence in the energy sector of the CA countries, we cannot ignore the popular thesis that they are becoming a raw material appendage of the PRC, in which there is a large grain of truth. The growing internal demand in the PRC for almost all raw materials is promoting CA's transformation into a raw material appendage not only of the European, but also of the Chinese economy. The comprehensive non-competitiveness of the economies of the region's countries (compared with the nearby Chinese economy) is aggravating, if not completely preventing their opportunities to diversify their economic structure outside the raw material sector.

Attaching this status to the Central Asian region is of an objective nature and there is no alternative to it in certain historical conditions. The raw material specialization of the Central Asian economies is manifested in their relations not only with the PRC, but also with all the other countries in the present-day world. And this is not so much a problem of bilateral relations with China, as an internal problem of these republics, which consists of the fact that there are very limited opportunities for productive use of the population outside the raw material production sector and several branches of agriculture in Central Asia and Eurasia.<sup>59</sup>

Finally, as someone engaged in geopolitics, I am very interested in the competition among the geopolitical actors in CA. Keeping in mind China's growing appetite, it can be presumed that competition among the Chinese, Western, and Russian companies operating in CA (particularly in the oil and gas sector) will grow, which will force the states of region to choose a priority partner.

So there can be no doubt that an open conflict of interests between China and Russia might occur at some stage, since both these countries are trying to pursue their own advantages in CA. In this event, China will most likely try to make the states of the region choose between its "investment capabilities" and Russia's "imperial ambitions," and it will be rather difficult to predict who the Central Asian elite will vote for.

It is very possible that the choice will be made in China's favor, particularly keeping in mind its share in creating new oil and gas, transport, and infrastructure projects and the designated changes in the PRC's image in the public opinion of the region's states. Despite the worries about Chinese expansion that exist at the mental level, today, not only the political elite, but also the population of the CA states regard China as a very worthy alternative to Russia.

So the main question for me sounds rather paradoxical: how long will the idyll in relations between the PRC and CA states continue and how will China behave when it no longer has to compete with Western and Russian companies?

We should always remember that we are dealing not only with a leading Asian nation, but also with a country, one of the stratagems of which is the axiom about "the wise monkey sitting on the hill watching two tigers fight in the valley." And the most important thing is for the tigers not to fall into the monkey's clutches after they run out of steam.

All kinds of fears and phobias should not be allowed to take the upper hand. Nor should China's cooperation with the region's countries in the energy sphere be shrouded in secrecy.

- First, we need openness; all the contracts that have been signed or are being prepared for signing must be discussed with specialists, including representatives of NGOs. And this does not only apply to China, it concerns all foreign investors.

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<sup>59</sup> See: S.V. Zhukov, O.B. Reznikova, *Tsentralnaia Asia i Kitay: ekonomicheskoe vzaimodeystvie v usloviakh globalizatsii*, RAS Institute of World Economy and International Relations, Moscow, 2009, p. 160.

- Second, we need a sober evaluation of reality, which presumes a systemic study of both the political, national, sociopolitical, and ideological processes going on in China, and the specifics of its foreign policy.

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