

Win-win or Win-lose?

China-Kazakhstan Energy Cooperation within the Belt and Road Initiative

by *Komila Nabiyeva*

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Over the last ten years, China has become a major trade partner of Kazakhstan, investing heavily in the country's oil and gas sector. Information about the Sino-Kazakh cooperation has been scarce, raising many questions about the economic, social and environmental risks for the Central Asian country and fuelling anti-Chinese sentiment among the local population. Komila Nabiyeva reviews the energy cooperation of two countries within the Belt and Road Initiative and its implications.

In September 2013, China's President Xi Jinping announced the launch of the country's Belt and Road Initiative (BRI) during his visit to Kazakhstan. A one trillion US dollars grand plan is set to connect Asia, Africa and Europe through multiple transport corridors and infrastructure projects on land and at sea. The place for the announcement had its historical symbolism: over 2.000 years ago the first Chinese envoy was sent "to open the door to friendly contacts between China and Central Asia as well as the transcontinental Silk Road", according to Xi Jinping. This founding myth has since become part of the official BRI narrative (Hoering, 2018, 48).

But the strategic importance of Kazakhstan goes beyond its role in the Silk Road. Located in the middle of land routes from Western China to Europe, the country often refers to itself as the

'buckle'¹ in the Silk Road Economic Belt (SREB), one of the two BRI pillars. As the strongest economy in the region, it has a potential to become a major trans-Eurasian transport and logistics hub. Kazakhstan is also a close partner of Russia and member of the Russia-led Eurasian Economic Union (EEU). At the time of the BRI announcement it was the only country in the region which could provide access for China to the EEU market.

Kazakhstan also borders and has historical and cultural ties to China's largest province of Xinjiang. Xinjiang is less economically affluent and problematic for China due to regular ethnic tensions with the predominantly Muslim Uighur population. Moreover, Kazakhstan has tremendous crude oil and gas resources. It has the 12th largest oil reserves in the world and the third

Table 1. Kazakhstan's exports and imports in Millions of US dollars

(Source: IMF Direction of Trade Statistics)

Exports to	2014	2015	2016	2017	2018
China	9 815	5 480	4 228	5 773	6 240
Russia	6 389	4 548	3 445	4 479	4 979
United States	412	434	613	462	957
Germany	445	343	262	418	463
Imports from	2014	2015	2016	2017	2018
China	7 440	5 088	3 668	4 692	5 381
Russia	13 808	10 530	9 288	11 336	11 969
United States	1 999	1 484	1 277	1 253	1 499
Germany	2 327	1 986	1 443	1 479	1 646

largest outside of the members of the Organisation of the Petroleum Exporting Countries (OPEC).

Over the last ten years, China has been investing heavily in Central Asian countries and especially in Kazakhstan. Kazakhstan is among the world's top ten recipients of Chinese non-concessional finance (with less than 25 % grant element), along with Russia, Pakistan, Angola and Turkmenistan.² In 2018, Kazakhstan's exports to China accounted for six billion US dollars and imports from China for five billion US dollars (total trade turnover of over 11 billion US dollars). Before the slowdown due to the 2014–2016 oil price plunge, the total trade turnover between Kazakhstan and China was even higher, reaching over 17 billion of US dollars. As of today, China has steadily caught up with Russia as the most important economic partner and has become the largest investor in Kazakhstan (see table 1).

Kazakhstan responded to the SREB by integrating its state infrastructure development programme 'Nurly Zhol' ('A Road to the Future' in English) into the BRI. The programme is also part of the modernisation strategy 'Kazakhstan-2050', launched by former President Nursultan Nazarbayev. The strategy should bring the country to the top 30 most developed countries by 2050. The Nurly Zhol investment programme of nine billion US dollars is set for the period of 2015–2019. According to experts, it was driven by the need to cope with the external shock to Kazakhstan's oil-dependent economy due to a sharp decline in oil prices since 2014.

In September 2016, China and Kazakhstan signed a joint plan, which officially linked the SREB and Nurly Zhol (Bitabarova, 2019, 162).

Controversial relations with China

"Chinese business presence is an extremely politicized issue in Kazakhstan", Sergey Solyanik, consultant of the NGO Crude Accountability says. "The fact that too little information is available on the Chinese cooperation reinforces the already existing phobias among the population". Solyanik has been working as an environmental activist in Kazakhstan for over 20 years and monitors activities of oil companies and international financial institutions operating in the country.

The growing influence of China in Central Asia over the last years reactivated the old fears and clichés, stemming from the Soviet times and presenting China as an historical enemy. In Kazakhstan numerous factors exacerbated anti-Chinese sentiment. Back in 1991, China questioned Kazakhstan's sovereignty over the territory, stretching from Semirechye to the Lake Balkhash (Peyrouse, 2016, 15). The issues of cross-border river management between the two countries remain unresolved. The main two rivers in Kazakhstan, the Ili and the Irtysh have their sources on the Chinese territory. They have been subject to pollution and drought due to the increased water withdrawal from China. China's repression of Muslim minorities, includ-

ing ethnic Kazakhs, also damages its reputation in Kazakhstan.

There is a striking difference between the positive narratives of a “win-win cooperation with China” among Kazakhstan’s political elites, benefiting and having direct interest in the business deals (cf. O’Neill, 2014) and the mistrustful as well as partly alarmist reactions among the expert circles and the general public to the news about Chinese investments. The majority of independent experts in Kazakhstan consider the expression ‘China’s soft hegemonism’ accurate, when describing the country’s geopolitical influence and economic investment. The expression was proposed by Murat Laumulin, former chief researcher of the Kazakhstan Institute for Strategic Studies (Peyrouse, 2016, 20).

Discourses on the ‘Chinese expansion’ and ‘invasion’ of Chinese migrants, who will settle and take away jobs and women from locals can be frequently found in the Kazakh mass and social media. Land ownership is a particularly sensitive issue among the local population. In April 2016, the announcement of the planned amendments to the land law, which would have allowed foreigners to rent agricultural land for 25 years and land to be sold and leased at auctions, have led to numerous protests across Kazakhstan.

Energy cooperation

Oil and gas

Over the last two decades, China has turned from an energy sufficient country to a net oil and gas importer. The world’s largest economy currently accounts for 20 % of the world’s total energy consumption and imports over 60 % of its crude oil, having overtaken the United States as the largest crude oil importer. Increasingly worried about its energy security, China has been focusing on securing diverse energy supply chains and alternative transportation routes.

Not surprisingly, Kazakhstan’s major exports to China are natural resources, including crude oil, natural gas and metals. According to different estimates, the share of Chinese companies in Kazakhstan’s oil sector varies between

25 % and 40 %. In 2013, Forbes.kz reported that at least 22 Chinese energy companies were active in Kazakhstan’s oil and gas sector with ten of them entirely Chinese owned and eight with over 50 % Chinese ownership. The largest investors are the state-owned China National Petroleum Corporation (CNPC), China Petrochemical Corporation (SINOPEC), China National Offshore Oil Corporation (CNOOC) and Petro China along with their subsidiaries.

CNPC is the most prominent and one of the oldest Chinese players in Kazakhstan with stakes in local energy companies and involved in various upstream and infrastructure development projects. In 1997, it bought 60 % and later an additional 25 % of shares of Kazakhstan’s Aktobemunaigas Corporation, a subsidiary of the national energy company KazMunaiGaz (KMG). KMG and CNPC jointly constructed the Kazakhstan-China oil pipeline, with a capacity of 12.5 million tonnes per year. In 2013, CNPC acquired an 8.33 % stake in the Kashagan offshore project. It was China’s first offshore and largest acquisition in the Caspian Sea basin (Smith Stegen/Kusznir, 2015, 102).

Furthermore, Kazakhstan plays an important role in the China-Central Asia gas pipeline, the first transnational infrastructure project of China in the region, spanning across Turkmenistan, Uzbekistan and Kazakhstan and linking up with Xinjiang at the border of Horgos.

In 2016, following his visit to Beijing, the then Kazakh President Nursultan Nazarbayev announced cooperation plans with China on 51 joint enterprises. Meanwhile, Chinese media reported on plans to move production capacities of 51 plants to Kazakhstan. Both sides revealed no details of the planned deals. In its later statements, Kazakh Invest, a national agency aimed to attract foreign investment, however, has been referring to 51 bilateral industrial projects in the mining, engineering and petrochemistry sector with the total investment value of 27.7 billion US dollars.

“This ‘magic’ figure of 51 projects is being often quoted by the Kazakhstan’s authorities during press briefings. But there is no detailed information available on what kind of projects those are”, Sergey Solyanik of Crude Accountability

says. Silence about the projects on both Chinese and Kazakh official side has created room for public speculation and rumours, whether those could be China's old and environmentally damaging production capacities.

According to Solyanik, in February 2019, the NGO Eco-Forum of Kazakhstan sent a request to the Kazakh Minister of Industry and Infrastructure Development, asking for details of the 51 joint projects. It received no reply. In March 2019, several environmental organisations, including Crude Accountability, sent separate letters to the Prime Minister of Kazakhstan and to the Chinese Embassy in the country, asking for details of the projects.

Meanwhile, according to Bitabarova (2019, 168) there was a change in the use of language in the official BRI discourse from the term "industrial transfers from China" to "industrial capacity cooperation". This indicates attempts on both sides to avoid the negative image and speculation, whether China moves its outdated and harmful industrial capacities to Kazakhstan.

Nuclear

Kazakhstan is the world's largest producer of uranium. The national uranium producing company Kazatomprom signed strategic cooperation agreements with China's General Nuclear Corporation and China National Nuclear Corporation in 2006 and 2007 respectively. Since then several bilateral agreements were signed on uranium supply and fuel fabrication as well as uranium mining joint ventures. Kazatomprom and China General Nuclear Corporation agreed to create a joint venture for nuclear fuel fabrication, which is due to start operation by the end of 2019. In 2014, Kazatomprom announced that 55 % of the produced uranium was exported to China.³

Renewables

Despite its investments in oil and gas, China has also been investing heavily in clean renewable energy technologies. This has been the case largely due to growing concerns over the

impacts of air pollution and the rapidly increasing profitability of renewables. In 2017, China accounted for almost 50 % of the world's new investments in renewable energy.⁴ However, renewable energy investment has been playing an extremely marginal role in the overall BRI projects. According to the recent World Resources Institute (WRI) report, over 60 % of energy-sector loans by Chinese development banks and over 90 % of energy-sector investments by the state-owned Silk Road Fund and state-owned enterprises in the period from 2014 to 2017 were in fossil fuels (WRI, 2018).

'The green economy' has been a buzz phrase in Kazakhstan ever since President Nursultan Nazarbayev unveiled his strategy to modernise the economy in 2012. Under his plan, the share of renewable sources in electricity generation should increase from 1 % today to 3 % by 2020, to 10 % by 2030 and to 50 % by 2050. In summer 2017, Kazakhstan hosted a World Expo under the slogan 'Future Energy' in an attempt to improve the international image of the country, and to attract investors and high technology.

Both China and Kazakhstan proclaim to have green ambitions. Both have government commitments on reducing greenhouse gas emissions and targets on deployment of renewable energy. Yet, so far no joint projects in the renewable energy sector were announced or implemented in the framework of the BRI.

According to the above-mentioned WRI report, privately owned Chinese enterprises drive most of cross-border investment in renewable energy (65 % of them invest in renewables). But foreign private companies, interested in investment in renewables in Kazakhstan, face numerous administrative barriers (Nabiyeva, 2018). These barriers also apply for Chinese private investors, who do not enjoy the backing and support that the state-owned fossil fuel corporations have.

As a result, nearly all utility-scale renewable energy projects realized to date in Kazakhstan were only possible due to the backing of the European Bank for Reconstruction and Development (EBRD). They include the 50 MW Burnoye Solar-1 in the southern Kazakhstan, and the 50 MW wind power park near the capital Astana. In 2018, Chinese solar manufac-

turer JinkoSolar Holding announced it will supply 50 MW of solar photovoltaic (PV) modules for the Burnoye-2 project, financed by the EBRD. Another Chinese solar PV modules producer Risen Energy received the financial backing of the EBRD, Green Climate Fund and Clean Technology Fund to build a 40 MW solar PV plant in the north of the country and a 50 MW solar PV plant in southern Kazakhstan in 2018 and 2019 respectively.

Implications and risks of Chinese cooperation

In April 2018, the International Monetary Fund (IMF) warned China to “beware of financing unneeded and unsustainable projects in countries with heavy debt burdens”.⁵ Later, a study by a US consultancy found that 32 % of the BRI projects, worth 419 billion US dollars, have run into “trouble”, such as performance delays, public opposition, and national security controversies.⁶

Chinese loans and business deals have been a subject of criticism for the lack of transparency on the contractual terms and conditions, lack of visible corporate social responsibility as well as non-respect for the environment and human rights. Several of these issues concerning Chinese cooperation are particularly relevant in the case of Kazakhstan.

Political and economic dependence

In contrast to the Western financial assistance, Chinese loans are known to come without conditions on political and economic reforms, such as strengthening human rights, good governance and economic liberalization. This has led to the criticism that Chinese loans indirectly encourage retention of problematic investment environment, poor rule of law and endemic corruption in recipient countries.

In fact, bilateral agreements and deals concluded to date with Kazakhstan demonstrate that China’s main interest in Kazakhstan is as a stable and close source of natural resources to foster China’s economic growth. Nearly all Chinese investment in Kazakhstan is by state-



owned enterprises. It is therefore in China’s interest to have a stable political leadership in Kazakhstan. High levels of corruption,⁷ weak checks on the executive branch, and lack of transparency in Kazakhstan help China to secure its deals. In return, Chinese loans expand the resources available for the Kazakh government to maintain economic stability and to ensure the necessary support from the elites and public to be able to stay in power (O’Neill, 2014, 147).

Meanwhile, Chinese financial assistance is not free of conditionality. Since China is not a member of the Organisation for Economic Cooperation and Development (OECD), it is not obliged to report on its aid-granting processes and conditions. This leaves a lot of room for opaque trade-offs with recipient countries. In the past, China often provided foreign governments with loans in exchange for the right to extract their natural resources. This fosters the phenomenon of ‘predatory aid’, which captures foreign resources and subjugates recipient countries by locking them into the role of raw material exporters (Laruelle, 2018, xi).

Indeed, about three quarters of Kazakhstan’s and Central Asian exports to China are raw materials, petrol, ferrous and nonferrous metals. At the same time, about 90 % of Chinese exports to Kazakhstan and other Central Asian countries include finished goods, such as consumer products, high-tech, pharmaceuticals and automobile parts (Peyrouse, 2015, 17). Kazakhstan made efforts in the past to diversify traded products and improve coordination of certification

Graph 1. Railway connections and oil and gas pipelines in Central Asia, connected to China. Source: Geopolitical Intelligence Service, 2017.

Table 2. China's loans as reported by Kazakhstan, in millions of US dollars

(Source: Laruelle, 2018, viii)

	2014	2015	2016	2017
Kazakhstan's total debt	157,062	153,456	163,758	167,890
Loans from China	15,969	13,248	12,589	11,975
Share of loans from China in total debt	10 %	9 %	8 %	7 %

policies, but without much effect. Currently, oil accounts for about 60 % of Kazakhstan's total exports and used to account for a quarter⁸ of the country's GDP.

Apart from cementing Kazakhstan's dependency on raw material exports, Chinese cooperation also does not necessarily contribute to higher economic growth, business development and employment. Worldwide, Chinese firms are involved as contractors in almost 90 % of projects financed by China (Hoering, 2018, 39). Therefore, a large share of Chinese funding supports the country's own economic development. A loan granted by a Chinese bank is reinvested in the Chinese company that gets the contract, which brings Chinese equipment and a Chinese workforce to implement the project (Laruelle, 2018, xi). Therefore, it remains to be seen if the promises of Kazakhstan's government to create over 20,000 new jobs for the local population in the planned 51 joint projects will be realized.

China's loans also contribute to a debt spiral. In the neighbouring countries of Tajikistan and Kyrgyzstan Chinese loans already account for about 40 % and 50 % of the public debt respectively. Such dependency raises big concerns about possible trade-offs for the repayment of Chinese credits. According to Kazakh sources, loans from China accounted for about 7 % of the total public debt in 2017 (see table 1). However there are indications that the real value of the debt is being underrated to avoid public criticism (cf. O'Neill, 2014).

Environmental and human rights

"One of the biggest problems is that Kazakh authorities do not make a strategic environmental assessment of the planned large projects in the

country. There are no information and public hearings for Chinese projects, although Kazakhstan is a signatory of the Aarhus Convention", Sergey Solyanik of Crude Accountability says. Lack of transparency and information on Chinese business deals and loans also raise social and environmental risks such as environmental pollution, lack of compensation to local population, human rights violations and poor working conditions.

A prime example is the case of the Kenkiyak village in the western Aktobe region of Kazakhstan. About 5,000 people live next to the crude oil deposit, which has been exploited since 1960s. For the last twenty years, it has been exploited by the Chinese state-owned oil corporation CNPC.

"In summer, the majority of the Kenkiyak population does not get drinking water, although there is a fresh water deposit about 20 km away. Experts believe that the lack of water most probably has to do with the water intake of the CNPC-Aktobemunaigas to keep pressure in the oil deposit," Sergey Solyanik says. According to the media reports, the local village population suffers from regular emissions of hydrogen sulphide, and the rates of cardiovascular diseases and cancer in the village have increased dramatically.⁹

CNPC does not respond to requests and letters from the local village population. "That is a distinctive feature of the CNPC management. They never contact local people. They are in contact only with the [local] authorities. Even the hotel for shift workers, built by CNPC in Kenkiyak, is separated into two parts by a high fence. There is one entry for Chinese managers and another one for Kazakh. They never intersect," one Kenkiyak resident told the journalists of "Uralskaya nedelya".¹⁰

Future outlook

Most experts on Central Asia agree that through the BRI China will remain the largest investor in the region. The country can mobilize more investment than Russia and the Western countries are offering (cf. Laruelle, 2018). Engagement in the BRI is a turning point in the region's post-Soviet history and an important factor for its social and economic development. Yet, investments in infrastructure and energy by themselves do not necessarily lead to economic growth. For that the respective governments should assess the long-term sustainability of the projects.

By aligning its Nurly Zhol investment programme with the SREB, Kazakhstan has proved to be willing to affect the course of China's 'game' (cf. Bitabarova, 2019). But to ensure the sustainable economic growth in the country and true "win-win" cooperation, the Kazakh government should leverage Chinese investment to develop its own manufacturing and services sectors, to enable knowledge transfer and to create local jobs. Between 2014 and 2016, the Kazakh government have experienced first-hand that oil and gas-dependent economies are extremely vulnerable to external price shocks. It learned that the diversification of economy would be a key solution.

A crucial step, which would help both Kazakhstan and China to gain public support for their bilateral cooperation, would be ensuring transparency and public access to information on joint agreements and Chinese loans. Scrutiny of the planned projects by civil society and through public hearings would also provide necessary checks and balances.

Both China and Kazakhstan have commitments on tackling climate change and need action to prove words. Moreover, China is interested in improving its reputation as a development part-

ner both in Kazakhstan and internationally. Introducing and encouraging renewable energy cooperation into the BRI strategy would help to achieve this goal. Kazakhstan would need to improve the investment environment and address numerous administrative barriers that currently hinder private foreign and local investment in the Kazakh renewable energy sector. The transition to renewables could be a shortcut to the top 30 developed countries for Kazakhstan.

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Notes

- 1 <https://www.reuters.com/article/us-kazakhstan-aifc/seeking-belt-buckle-role-kazakhstan-launches-china-backed-financial-hub-idUSKBN1JV1CG>
- 2 <https://www.aiddata.org/china-official-finance>
- 3 <http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/kazakhstan.aspx>
- 4 This excludes large hydro.
- 5 <https://www.ft.com/content/8e6d98e2-3ded-11e8-b7e0-52972418fec4>
- 6 <https://www.todayonline.com/commentary/chinas-belt-and-road-initiative-falling-short>
- 7 Kazakhstan ranks 124th out of 180 countries in Transparency International's Corruption Perceptions Index 2018. Lower rates indicate higher corruption.
- 8 In 2016, the share of oil export in Kazakhstan's GDP reduced to 13% due to world oil prices plunge.
- 9 See for example the following media report: <http://ptk.kz/page3500740.html>
- 10 Ibid.

About the author

Komila Nabiyeva is a freelance journalist and writer covering climate change and energy issues in Eastern Europe and Central Asia. Previously, she worked as a communications consultant, moderator and trainer for the United Nations and other organisations. From 2014 till 2019, she coordinated the work of the Energy Watch Group, an international network of scientists and parliamentarians.

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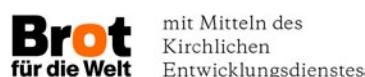
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Christian Straube | Stiftung Asienhaus

Hohenzollernring 52

50672 Köln (Germany)

Tel.: 0221|71 61 21-12

Email: christian.straube@asienhaus.de

Web: <https://www.eu-china.net>

Gesamtausstattung:

Klartext Medienwerkstatt GmbH

(<http://www.k-mw.de>)
