Kazakhstan and China in the context of economic oil and gas cooperation

Abstract. This article analyzes the project and investment participation of Chinese companies in the oil and gas industry of Kazakhstan, with special attention paid to the development of economic cooperation and energy dialogue between the Republic of Kazakhstan (RK) and the People’s Republic of China (PRC). The risks, prospects for the development of the energy dialogue and its impact on economic cooperation are identified. The article reflects the current state of oil and gas companies with the participation of Chinese capital in the Republic of Kazakhstan, the prospects and risks of attracting Chinese investment in the industry of the Republic of Kazakhstan are identified. Mutual desire to maintain stability and geographical proximity have become prerequisites for close strategic relations between the two countries. In conclusion, the result of the infusion of Chinese investments into the economy of the Republic of Kazakhstan is noted, this is a contribution to GDP, exports of goods, employment of the population. Chinese investments create jobs. Cooperation between Chinese companies and partners of the Republic of Kazakhstan contributes to the introduction of new technologies, knowledge and practices.

Keywords: Kazakhstan, China, economy, energy, oil and gas projects, cooperation, prospects.

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Introduction. Relations between the Republic of Kazakhstan and the People’s Republic of China began to form in a difficult period of history. The collapse of the Soviet Union and independence in 1991 affected the economy of Kazakhstan, but the country began to restore it at the expense of oil. Since the territory of the Republic of Kazakhstan is rich in hydrocarbon reserves, China and Kazakhstan also have a common border with a length of 1782.75 km and 23 transboundary rivers [1], China, due to the needs of its energy economy, has shown economic interest in energy cooperation with the Republic of Kazakhstan. Cooperation began to manifest itself in the project and investment activities of Chinese companies in the oil and gas industry of Kazakhstan and in strengthening the positions of Chinese manufacturers in the country’s consumer markets.

Since the mid-1990s, the Chinese economy has started to develop intensively due to two factors: This is the accession of Hong Kong, and the second factor is the entry of the People’s Republic of China into the World Trade Organization. More than 70% of foreign direct investment is carried out through Hong Kong and thanks to this, the economy is developing and has a positive impact on the country. On the other hand, joining the World Trade Organization revealed new interests of the People’s Republic of China. Tariffs and restrictions on trade with other countries were lowered, and soon Chinese goods were being sold all over the world. The total volume of foreign exports reaches $3.3 trillion, and the People’s Republic of China is also considered one of the largest exporters in the world. Chinese investors seek global diversification and use market opportunities to strengthen their business at home and abroad. Over the past ten years, more and more investors from the People’s Republic of China have entered the international market, thanks to government support, increased domestic demand and the growth of the middle class, in accordance with this, the country is turning from the largest producer into the largest investor. Chinese investors are actively exploring such sectors of the economy as telecommunications, oil and gas industry, media and technology, infrastructure, real estate, finance, agribusiness and healthcare.
Important attractive advantages for investment directions in the Republic of Kazakhstan are macroeconomic stability and a relatively cheap, numerous workforce. The factors influencing investments are political exchange rate, low tax rates and a convenient cost of investment.

In the Republic of Kazakhstan, not only Chinese investors, but also other investors are provided with a full range of project support services, as well as monitoring in the post-investment period, which allows them to work clearly with each investor and project at all levels. And how will the economy of the Republic of Kazakhstan develop with the help of investment? The economy will receive tax revenues from oil and gas, GDP growth, oil and gas exports, employment in the energy sector, infrastructure of oil fields.

This topic is relevant in three aspects and in the prospects of bilateral Kazakh-Chinese cooperation in the economy and in the energy sector.

First, energy cooperation – it is the need of both sides to diversify both export supplies and the receipt of energy resources.

Secondly, a good, favorable investment environment has been created for Chinese investors in the territories of the Republic of Kazakhstan.

Thirdly, various visits of the Heads of State of the Republic of Kazakhstan and the People’s Republic of China, joint agreements between them, such as Agreement on Cooperation in the field of Oil and Gas and General Agreement between the Ministry of Energy and Mineral Resources on field development projects in Kazakhstan and the construction of an oil pipeline from Kazakhstan to China, which was signed on September 24, 1997 [2]. The People’s Republic of China and the Republic of Kazakhstan signed the Intergovernmental Treaty on Good Neighbourliness, Friendship and Cooperation between the Republic of Kazakhstan and the People’s Republic of China (23.12.2003), Framework Agreement between the Republic of Kazakhstan and the People’s Republic of China. Agreement between the Government of the Republic of Kazakhstan and the Government of the People’s Republic of China on the development of comprehensive cooperation in the field of oil and gas (2004), Agreement between the Government of the Republic of Kazakhstan and the Government of the People’s Republic of China on Customs Control of Energy Resources Transported Across the Kazakh-Chinese State Border by Pipeline Transport (2006) [3]. In 2013, as part of the formation and promotion of a new model of international cooperation based on the ancient Silk Road, China launched the One Belt and One Road initiative. The initiative puts forward new mechanisms of regional economic cooperation, stimulates the economic prosperity of countries [4]. Among the first countries was the Republic of Kazakhstan, which supported the initiative of the PRC.

Research methods. To conduct this research, the method of content analysis, historical-chronological economic-mathematical, socio-analytical, statistical methods were used. The historical-chronological method was used for the chronology of Sino-Kazakh relations, the economic-mathematical method was used to substantiate the data on the extraction and export of raw materials, the socio-analytical method was used to identify the weaknesses and strengths of cooperation. Data from the official websites of Chinese and Kazakh companies were interpreted and analyzed using the statistical method. The work uses collections of scientific papers, state statistics and Internet resources, legislative acts of countries, media texts, agreements and contracts.

Results. More than 200 hydrocarbon deposits which consist of oil and gas have been discovered on the territory of Kazakhstan. Kashagan, Tengiz, Karachaganak, Uzen, Kalamkas and Zhetybai are large oil and gas fields. The total volume of reserves is estimated at 11-12 billion tons. 70% of these resources are concentrated in the western regions of Kazakhstan [5]. With a total length of 8301 km, the oil transportation infrastructure of the Republic of Kazakhstan is represented: the Caspian Pipeline Consortium (1510 km), Atyrau – Samara (1232 km), Atasu-Alashankou (Kazakhstan-China) (963 km), Kenkiyak-Kumkol (794 km) [6]. Bukhara-Ural, Beineu-Bozoi-Shymkent, Kazakhstan-China, Turkmenistan-China, Central Asia-Center, Caspian gas pipeline, Saryarka are 7 gas pipelines of the gas transportation infrastructure of the Republic of Kazakhstan.

China National Petroleum Corporation (CNPC), which debuts oil supplies to China, buys 60% of the shares of JSC Aktobemunaygas on June 4, 1997. In historical retrospect, this was the first project between the two countries, the optimal level of CNPC technologies, ahead of other competitors, allowed to become the main investor. In addition, the second large Chinese CITIC is also actively...
involved in the extraction of raw materials in Kazakhstan. The (Figure 1) shows the shares of these and also small Chinese companies in oil fields and in oil companies in Kazakhstan.

![Figure 1](image)

Figure 1 – Shares of Chinese investors in Kazakh oil and gas companies
Note – compiled by the author on the basis of the source [7].

Chinese investors are actively engaged in oil fields in Mangistau, Aktobe and Kyzylorda regions of the Republic of Kazakhstan. Over 25 years, Chinese investors have invested more than $42 billion in the development of Kazakhstan’s oil and gas complex. Another $50 billion was paid to the budget in the form of taxes [8]. To identify a complete positive result from Chinese investments in the Kazakh economy (Table 1), four large joint oil and gas companies of Kazakhstan were investigated as an object, such as Aktobemunaygas, Mangistaumunaygas, the Kazakh-Chinese Pipeline Company, the Asian Gas Pipeline Company.
Table 1 – Joint oil and gas companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Before investment status</th>
<th>Investment</th>
<th>Investment results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aktobemunaygas</td>
<td><strong>Undeveloped infrastructure</strong>, poor quality of equipment, unpaid salaries to employees, tax debts.</td>
<td>Purchase of the latest equipment conforming to international standards, the amount of investments in the Aktobe project exceeded $10.5 billion, cardinal technical re-equipment</td>
<td>Increasing the volume of hydrocarbon production due to the comprehensive involvement of scientific research. Over 25 years, the company has produced more than 150 million tons of oil and about 90 billion cubic meters of gas. The amount of taxes paid exceeded $12 billion. Adaptation of modern market management systems, introduction of international practice of internal management control; participation in government programs of energy independence.</td>
</tr>
<tr>
<td>Mangistaumunaigas</td>
<td>Development of 15 licensed fields</td>
<td>Introduction of new technologies</td>
<td>Provides more than a third of all oil production in the region and about 8% in the republic, consistently ranks among the top three in the ranking of the largest taxpayers in Kazakhstan. In 2021, the company transferred 300 billion tenge to the budget. Development of the international market for crude oil and petroleum products. 6,390,480 tons of oil were produced.</td>
</tr>
<tr>
<td>Kazakh-Chinese Pipeline Company</td>
<td>Manages the Kenkiyak–Kumkol and Atasu–Alashankou trunk oil pipelines with a total length of 2,800 kilometers and a capacity of 20 million tons of oil per year.</td>
<td>The cost of investments in the project is more than $1.5 billion.</td>
<td>The passage of 20 million tons of oil per year. In 2019, 5 million 580 thousand tons of oil were transported via the Kenkiyak—Kumkol oil pipeline. In 2019, 10 million 840 thousand tons of oil were transported through the Atasu — Alashankou oil pipeline.</td>
</tr>
<tr>
<td>Asian Gas Pipeline Company</td>
<td>Kazakhstan—China main gas pipeline with a length of 1,310 kilometers and a capacity of 55 billion cubic meters per year.</td>
<td>The volume of investments amounted to 6.5 billion US dollars.</td>
<td>The Asian gas pipeline turned out to be the largest taxpayer, taking 6th place among taxpayers, having paid 104.7 billion tenge to the Treasury of the Republic of Kazakhstan. Provision of gas supplies to the southern regions of the Republic of Kazakhstan.</td>
</tr>
</tbody>
</table>

Note – compiled by the author based on company data.

Thanks to joint ventures in Kazakhstan, the country began to earn money on the transportation and transit of hydrocarbons, the pipeline system allows pumping oil from western regions to the south and north, providing gas to residents of remote villages, as well as sending raw materials for export, increased oil and gas production, improved infrastructure.

Crude oil and natural gas production accounts for almost 45% of the entire industry. The share of crude oil and gas exports in the country’s total exports is 67% [9].

China is among the top ten investors (Figure 2) in terms of foreign direct investment (FDI) in Kazakhstan after the Netherlands, the USA and Switzerland. Since 2015, China’s investment flows to Kazakhstan have been showing positive dynamics – the average annual increase is 22%. And by types of economic activity, the largest volume is concentrated in the areas of transport and storage, mining, manufacturing and construction.
In 2022, Kazakhstan’s trade turnover with China amounted to $24.1 billion, which is 34.1% more than a year earlier [11]. Exports from Kazakhstan increased by 34.7% over the year (Table 2) and amounted to $13.2 billion. The share of Kazakhstan’s exports to China accounted for a significant 15.6% of the total turnover of the country. Imports from China to Kazakhstan increased by 33.5% over the year, to $11 billion. China’s share in the structure of Kazakhstan’s imports amounted to 21.9%. Among the key categories of Kazakhstan’s exports to China, crude oil and petroleum products are in the first place: 4.1 billion dollars – 2.2 times more than a year earlier. This is followed by refined copper and copper alloys ($2.3 billion), as well as natural gas ($1.2 billion). Exports are carried out through those oil and gas pipelines that are invested by Chinese investors.

Table 2 – Trade turnover of Kazakhstan and China from January to December 2022/USD billion

<table>
<thead>
<tr>
<th></th>
<th>2022/12</th>
<th>2021/12</th>
<th>Growth for the year</th>
<th>Share in the structure of trade turnover of the Republic of Kazakhstan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>24.1</td>
<td>18.0</td>
<td>34.1%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Export</td>
<td>13.2</td>
<td>9.8</td>
<td>34.7%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Import</td>
<td>11.0</td>
<td>8.2</td>
<td>33.5%</td>
<td>21.9%</td>
</tr>
</tbody>
</table>

Note – compiled by the author on the basis of National statistics data [12].
Discussion. The oil and gas industry of the Republic of Kazakhstan is a mining sector, and it is also one of the important sectors in the economic development of the republic. CNPC and CITIC are actively involved in Kazakhstan in almost the entire chain of the oil and gas industry. Although financial and economic indicators show good results, the social responsibility of joint oil and gas companies is experiencing fierce debate and resistance about the expansion of the participation of Chinese capital in the economy among the population. However, this resistance serves as a risk for both Chinese investors and Kazakhstan, because the number of foreign workers increases with the growth of investments, and for Chinese investors, various resistances in the form of strikes, debates will affect their work activities in the country’s region. To overcome anti-Chinese sentiment, Chinese investors are increasing their economic contribution to the development of the region where they carry out their activities. For a complete overview of the social activities of joint oil and gas companies, data from a large joint project of JSC CNPC-Aktobemunaygas were analyzed as an object.

The Joint-stock company carries out its activities in the Aktobe region of the Republic of Kazakhstan and is considered the flagship of the economy, the leading economic entity and a recognized source of budget revenue. The activity of JSC CNPC-Aktobemunaygas in the social sphere consists of two components: this is the fulfillment of the conditions of the annual Memorandum of Mutual Cooperation between Akimat of Aktobe region and JSC CNPC-Aktobemunaygas and events outside the Memorandum, which are purposefully carried out by the company itself.

CNPC-Aktobemunaygas pays great attention to large-scale support of socially significant projects in the region and the country. For example, at the beginning of 2022, the shareholders and management of CNPC-Aktobemunaygas JSC held partnership talks with the National Olympic Committee represented by the Table Tennis Federation of Kazakhstan on the possibility of acquiring the status of an official sponsor for both the Federation and the National Olympic Table Tennis Team of Kazakhstan. In Aktobe region, on the Day of Remembrance of Victims of Political Repression (May 31, 2022), a commemorative event was held at the Tuye Tobe memorial – the burial place of innocently shot citizens. On behalf of the Joint-Stock Company CNPC-Aktobemunaygas, Deputy General Director A.Zh.Ahmet laid a ritual basket of flowers at the Tuye Tobe memorial.

In 2001, CNPC-Aktobemunaygas JSC donated an 80-apartment residential building in Aktobe to the veterans of the Great Patriotic War. This object was a construction site on the balance sheet of the company, and the management of the JSC decided to hold a very important social action. In 2006, at the expense of CNPC-Aktobemunaygas in the amount of 159 million tenge, the repair of the highway leading from the airport to the city zone of Aktobe was carried out. In order to maintain the creative activity of students, JSC CNPC-Aktobemunaygas in 2006, at its own Neftyanik Recreation Center located in a picturesque place in the suburbs of Aktobe, organized together with Youth Maslikhat, a republican student debate tournament dedicated to the development of the fuel and energy complex, the energy complex of Kazakhstan. In June 2014, the Company provided equity financing in the amount of 5.5 million tenge to the events of the republican training “Zhas Geologist,” where children and students learned the art of scientific thinking. Annually, the Company undertakes to finance media subscriptions for veterans and disabled people of Aktobe region, allocating up to two million tenge per year for these purposes. In 2013-2017, the company sent 32.2 million tenge to bank accounts in Zhilstroysberbank as equity financing for the purchase of housing for children-graduates of orphanages. In 2020, the Company allocated 100.0 million tenge to finance the modernization of urban infrastructure in the city of Semey, which was carried out as part of the state program to celebrate the 100th anniversary of Abai.

In 2020, the whole world, including China, Kazakhstan, was struggling with the COVID-19 pandemic, according to the company, CNPC-Aktobemunaygas allocated $15 billion for the purchase of medicines, protective clothing and medical equipment. In the same year, CNPC-Aktobemunaygas JSC provided the regional health department of Semey with significant assistance in combating the spread of the COVID-19 pandemic.

CNPC claims that 97 percent of its workforce is made up of Kazakhstanis, definitely 30 thousand Kazakhstani workers. Foreign employees working in the company make up no more than 2% of the total, and they work in managerial positions. Investigating the issue of labor resources, it should be noted that in JSC CNPC-Aktobemunaygas, in accordance with the adopted provisions, non-working pensioners are paid financial assistance. The status of mothers with many children, large families is highly valued in the Republic of Kazakhstan, the joint-stock company provides financial assistance...
to large families with disabled children, large families. In accordance with all payments, monetary assistance is paid for funeral arrangements. JSC CNPC-Aktobemunaygas allocates a special award if employees have an anniversary. Various cultural and sports events, corporate parties, children’s matinees are held in the divisions [13]. Such events will help to maintain a balance between work and family, and will also have a good effect for the further self-development of the employee and the team.

One of the main aspects of the country’s good economic condition is the employment of the country’s population. Referring to the above information, it is worth noting that CNPC-Aktobemunaygas contributes to solving the issue of employment of the population. CNPC-Aktobemunaygas opened an International Community of the Kazakh Language for employees, 13 employees were chosen as guides for the team. This step of the company is assessed as a great contribution to the development and formation of the state Kazakh language.

Conclusion. Working all over the world, CNPC strictly adheres to the principles of social responsibility of business. Over the years of its activity in Kazakhstan, the corporation has transferred $410 million to charitable and social projects [14].

CNPC-Aktobemunaygas actively stimulates the sphere of science, culture, sports and supports talented Kazakhstani youth, provides grants for training. In a difficult moment, during the coronavirus pandemic, CNPC did not stand aside and purchased medicines and medical equipment for the regions of Kazakhstan.

CNPC-Aktobemunaygas, Mangistaumunaygas and PetroKazakhstan supply 70% of their products to the Kazakhstan market at domestic prices. The Asian gas pipeline and the Kazakh-Chinese oil pipeline made it possible to diversify oil and gas supplies, provided the country’s regions with hydrocarbons and exported raw materials.

The Corporation plays an important role in the development of multilateral cooperation between the two states and makes a significant contribution to the production and processing of hydrocarbons in Kazakhstan.

Energy cooperation in the bilateral cooperation of the People’s Republic of China with the Republic of Kazakhstan has a high privilege, since oil and gas production is considered one of the important factors for the growth of the economies of the Republic of Kazakhstan, and for China – timely supply of resources.

Investments transform the economy through innovation, increase productivity and create high-paying jobs. Cooperation between foreign and domestic companies contributes to the promotion of new technologies, knowledge and experience. Domestic companies receive foreign technologies, management experience through control, and also hire employees who have worked in foreign companies. By using such methods, they weaken the development of foreign companies.

Kazakhstan has carried out large-scale reforms that improve the overall investment climate in the region. In 1991, after gaining independence, Kazakhstan began to develop the economy effectively and in different ways and developed unevenly.

The main objective of the investment policy of the People’s Republic of China is to provide the People’s Republic of China with the resources necessary to strengthen its own economy and maintain its growth. The significance of investments for the countries in which they are invested lies in the fact that countries that are not in the best economic shape receive new railways, ports, power plants, etc.

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Қазақстан мен Қытай экономикалық мұнай-газ ынтымақтастығы контекстінде

Аңдатпа. Бұл мақалада қытайлық компаниялардың Қазақстандың мұнай-газ саласына және иңетерикалық dialoqты дамытуда ерекше назар аударылады. Энергетикалық dialoqты дамытудын тәуекелдері, перспективалары, және оның экономикалық ынтымақтастыққа есері айқындалды. Елдер арасындағы стратегиялық қатынастардың асыз, Қазақстан Республикасының саласына Қытай инвестицияларын тартудың перспективалары мен тәуекелдері анықталған.

Тұрақтылық пен географиялық қоғамдық сақтауға деген озара ұмтылыс екі ел арасындағы стратегиялық және иңетемикалық dialoqты дамытуда ерекше назар аударылады. Энергетикалық dialoqты дамытудын тәуекелдері, перспективалары және оның экономикалық ынтымақтастыққа есері айқындалды.

Түйін сөзлер: Қазақстан, Қытай, экономика, энергетика, мұнай-газ проекттілері, ынтымақтастық, перспективалар.
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Казахстан и Китай в контексте экономического нефтегазового сотрудничества

Аннотация. В данной статье анализируется проектное и инвестиционное участие китайских компаний в нефтегазовой отрасли Казахстана, при этом особое внимание уделяется развитию экономического сотрудничества и энергетического диалога между Республикой Казахстан (РК) и Китайской Народной Республикой (КНР). Определены риски, перспективы развития энергетического диалога и его влияние на экономическое сотрудничество. В статье отражено текущее состояние нефтегазовых компаний с участием китайского капитала в РК, выявлены перспективы и риски привлечения китайских инвестиций в отрасль Республики Казахстан.

Взаимное стремление поддерживать стабильность и географическая близость стали предпосылками для тесных стратегических отношений между двумя странами. В заключение отмечается результат влияния китайских инвестиций в экономику РК, это вклад в ВВП, экспорт товаров, занятость населения. Китайские инвестиции создают рабочие места. Сотрудничество между китайскими компаниями и партнерами РК способствует внедрению новых технологий, знаний и практик.

Ключевые слова: Казахстан, Китай, экономика, энергетика, нефтегазовые проекты, сотрудничество, перспективы.

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