

Struggle for Central Asian energy riches

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By Rayhan Demytrie



Chinese inspection at Khorgos border post - file pic Khorgos: The ancient Silk Road has turned into a busy trade route for China's booming economy

China helped out with loans when the global financial crisis hit Kazakhstan, and Chinese companies are pouring investment into the Kazakh oil and gas industry, but some Kazakhs now fear their country may be selling out.

China's presence in Kazakhstan begins in the market place. Household goods and appliances pour in across the eastern border, as well as thousands of tonnes of fresh produce. At the Kazakh-Chinese border crossing in Khorgos, hundreds of trucks laden with fruit and vegetables head off to local markets. China is a vital supplier of affordable products in Kazakhstan. But it is also viewed with suspicion.

At the Green Bazaar, one of the largest markets in Kazakhstan's financial capital Almaty, some vegetable traders deny that many of their products are Chinese. "Lots of traders put a sign next to the product on sale saying it is from Uzbekistan, because it has a better reputation for fruit and vegetables. There is a stereotype that if something is made in China it is of much poorer quality," says Zhansulu, who sells tomatoes and cucumbers.

Energy riches

Chinese investors also have a growing and significant presence in Kazakhstan's lucrative energy market - and that has aroused public concern.



Gas workers in Kazakhstan (pic: KazMunaiGaz) China is competing with Russia and the West for Kazakh energy

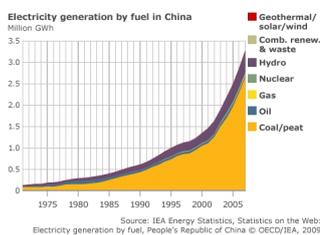
Last month a group of Kazakh parliamentary deputies appealed to the country's energy minister Sauat Mynbayev. They asked him to "dispel the cloud" of concern regarding China's stake in the former Soviet republic's oil sector. In a written answer, Mr Mynbayev said China held a 50-100% stake in 15 companies working in Kazakhstan's energy sector.

According to the Kazakh energy ministry, out of 80m tonnes of crude oil which Kazakhstan is

expected to produce in 2010, 25.7m will go to China.

China significantly increased its interests in energy-rich Kazakhstan in 2009, in return for providing nearly \$13bn in credits and loans. It was timely help for a country hit by the global financial crisis. Kazakhstan had over-borrowed and had suffered from falling oil prices. "Once energy prices fell, Kazakhstan had to find ways to borrow money and along comes China, offering favourable conditions - lending huge sums at low rates of interest," says Sergei Smirnov, a business journalist with Kazakhstan's Expert magazine.

China's state energy company, China National Petroleum Corporation (CNPC), bought the Kazakh oil producer MangistauMunaiGaz for \$2.6bn in a joint deal with the Kazakh state energy company KazMunaiGaz. China Investment Corp (CIC) purchased 11% of the KazMunaiGaz Exploration and Production company for \$939m.



Graph showing electricity generation by fuel in China - IEA data Uranium project

Agreements have also been reached on joint uranium production. Separately Kazakhstan's biggest copper mining company, Kazakhmys, has agreed with China's Jinchuan Group to create a joint venture to develop Kazakhmys' major copper growth project at Aktogay.



Chinese President Hu Jintao (left) and Kazakh President Nursultan Nazarbayev, opened a key gas pipeline last year

"What we see here in Central Asia is part of China's general strategy. Since the global financial crisis China, which is the only country with excess cash, has been actively purchasing energy assets that have fallen in price," says Kazakh political scientist Dosym Satpayev.

Last summer also saw the expansion of oil infrastructure into China from Kazakhstan. The Kazakh-China oil pipeline grew an additional 762km (472 miles) from Kazakhstan's Caspian Sea oilfields, reaching China's Xinjiang province. The pipeline is partly owned by CNPC and is the first direct oil pipeline from Central Asia to China. It can transport up to 10m tonnes of crude oil per year, and there are plans to double that capacity.

Land grab?

Chinese support for Kazakhstan after the global financial crisis may have been appreciated by

the Kazakh government, but there has been growing public unease that the country may be selling out to its eastern neighbour.



In December Kazakh President Nursultan Nazarbayev said China was interested in renting one million hectares of Kazakh farmland. For the country's weak political opposition this was an opportunity to mobilise support. Rare public demonstrations were held against "Chinese expansionism". In late January, up to 1,000 people holding banners that read "Kazakh land is not for sale" urged the government to reconsider.

Old fears

Kazakhstan is one of the largest countries in the world by area, but has a population of just 15.6 million. Fears were voiced that the land lease would lead to Chinese farmers beginning to settle in the country. This came on top of existing fears about the number of Chinese energy workers. But the government has sought to dismiss such concerns. At a press conference in February Kairgeldi Kabyldin, the head of the country's main oil and gas company KazMunaiGaz, said that just 2% of workers in Kazakh oil companies were Chinese.

"We can't say that there is an expansion of Chinese investors, we are guided first of all by economic profitability. In our view, there are substantial advantages from our partnership with China," said Mr Kabyldin.

Regional observers say Kazakhstan needs to understand its neighbours' motives better. "People only see the short-term benefits. Kazakhstan sees China as a big wallet where it can get credits. But China is playing a 1,000-year game", says Dosym Satpayev. As China provides economic support for Kazakhstan, he says, there is a risk that bit by bit it will also gain political leverage.

Source: [BBC News](#) .