

Chinese Inroads into Central Asia: Focus on Oil and Gas

Written by Aditya Malhotra

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There is no question that if any country has experienced unprecedented economic growth over the past two decades, it is China. Since 2008, at a time when global economies recorded one of their slowest paces of growth, the People's Republic of China single-handedly spearheaded a global economic recovery one that is albeit weak but underway. The country has implemented sound policies which have not only launched its present growth trajectory, but has laid a solid foundation for years to come. One such policy is securing its energy supplies globally and its crude oil and gas in particular. The International Energy Agency has forecast that 65% of China's crude oil consumption will depend on imports by 2015. Currently, China's oil imports mainly come from the Middle East, Africa and Latin America with approximately half of these imports coming from the Middle East.

Shift in policy

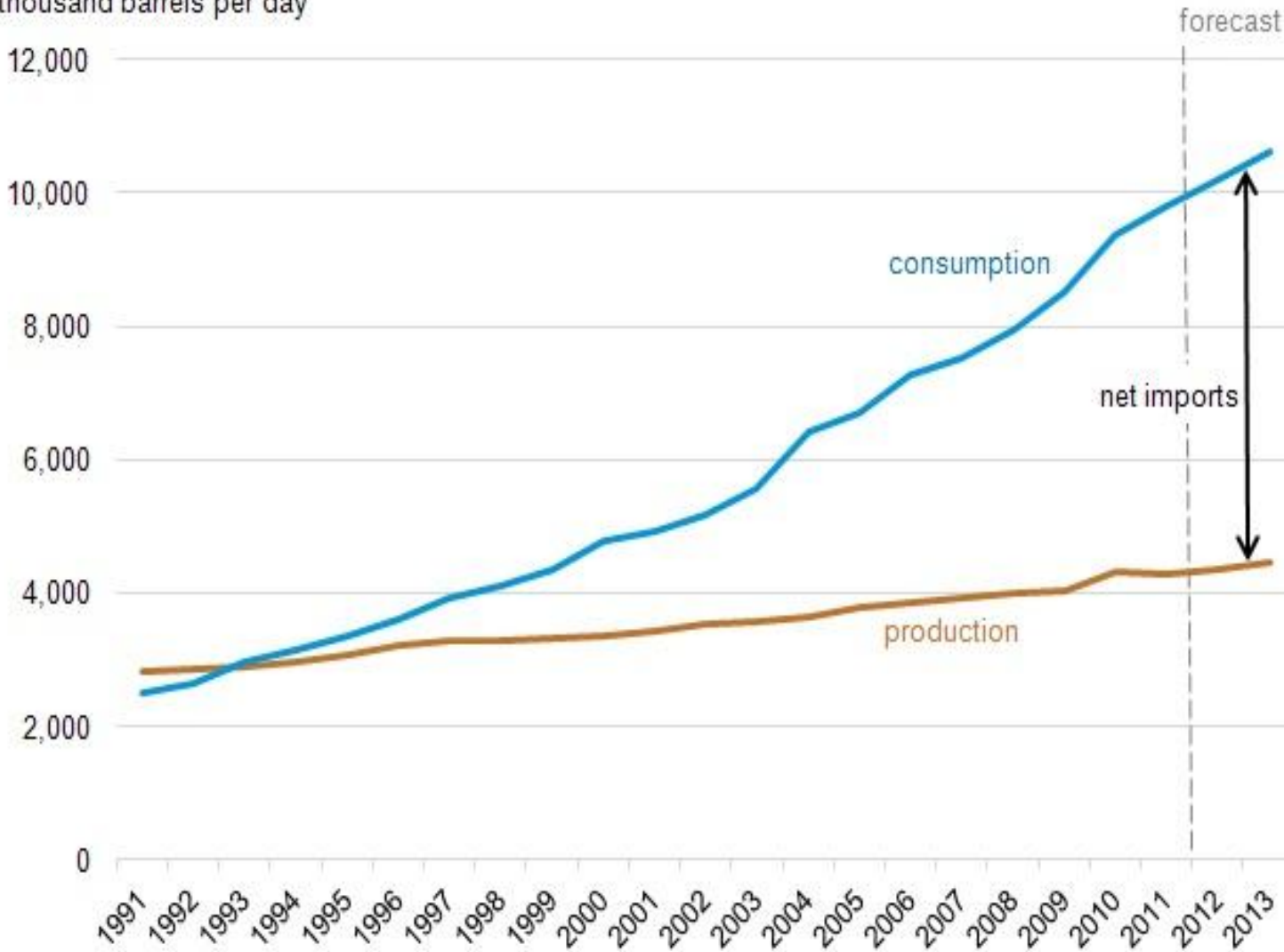
China is the world's second largest oil consumer and its second largest net importer of oil. In one of its major policy changes, China has increasingly started to look to diversify its crude oil and natural gas import basket to hedge against potential supply disruptions from its concentrated dependence on Middle East oil. China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) are the major national oil giants that are responsible for securing the country's energy supply. They have massive investments in Africa, Brazil and in Central Asia and usually have an advantage over other private oil companies with the development activities they offer supported by the Chinese government. Ranging from building infrastructure, providing loans for development and building refining and petrochemical complexes to the price they are willing to pay for rights to explore and buy assets in foreign nations have given China an advantage over would-be competitors in foreign markets. Not only do overseas investments provide a stable energy supply for China, they also help the government in maintaining and increasing its strategic influence across the globe. The Chinese government offers loans for E&P (Exploration & Production) activities and in return is guaranteed shipments of oil on an on-going basis. These loans have proven to be a decisive blow in many cases in successfully bidding on major oil contracts. A good example of its loan-for-oil strategy was the injection of billions of dollars into the Kazakh economy, through the Kazakh development Bank (KDB), in the year 2009 when the global economy was in shatters, making China the biggest investor in Kazakhstan and the most important contributor to Kazakhstan's growth. No other country has matched the sheer scale of Chinese investment in this country so far.

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China's oil production and consumption, 1990-2013

thousand barrels per day



Source: U.S. Energy Information Administration *International Energy Statistics and Short-Term Energy Outlook (August 2012)*

