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THE RUSSO-CHINESE AND CENTRAL ASIAN FOSSIL FUELS TRADE: DIVERSIFICATION AND THE GEO-ECONOMIC BALANCE OF POWER

Davor BOBAN and Valentino PETROVIĆ¹

The article is about the role of fossil fuels in Russian foreign policy and about the geo-economic strategies which the Kremlin applies toward China and Central Asia. We argue that Russia uses a geo-economic realist approach and a neo-mercantilist strategy toward China. Our second argument is that the desire for diversification and direct trade brings them closer to each other, but conflicting interests in Central Asia also divide them. The combination of these centrifugal and centripetal forces results in a balance in Russo-Chinese relations and characterises their new partnership. Finally, Central Asian fossil fuel exporting countries are also interested in trade diversification to remain independent from Moscow and Beijing. We argue that the Kremlin can use some aspects of a neo-imperialist strategy toward Central Asia, but new pipelines toward China decrease the overpowering Russian influence in the region. Research covers the 2000–2020 period and statistical data references acquired from primary sources are used for the research.

Key words: Russia; China; Central Asia; fossil fuels; geo-economic realism.

1 INTRODUCTION

The trade in fossil fuels between Russia and the EU states is burdened with political conflicts and disagreements. The Ukraine gas crises of 2006 and 2009, the Russian leverage in gas trade over the Baltic and East Central European countries, and Russia's annexation of Crimea in 2014 prompted reactions from Brussels. The EU's Third Energy Package of 2009 and 2014 sanctions against Russia resulted in strained relations and affected their gas trade. A danger of international isolation faced the Kremlin and it turned its attention more to Asia, particularly China. The common denominators of this co-operation are the desire

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of both countries to achieve economic benefits, to diversify their energy trade, and to strengthen their positions in the international community. For these reasons, neighbouring countries and regions, primarily Central Asia, are also target of their interests.

Our research focus is primarily on the role of the fossil fuels trade in Russian foreign policy and the geo-economic strategies which the Kremlin could apply toward China and Central Asia. The research covers the 2000–2020 period when direct fossil fuels trade was established between Russia and China and when they established new relationships or changed their existing ones with Central Asian countries. We argue that with a direct trade with China, Russia is using a geo-economic realist approach and a neo-mercantilist strategy and combines it with no other strategy discussed by Wigell (2016) and some other authors: neo-imperialist, hegemony, or liberal institutionalism. The reason for not applying the first two is a lack of possibility for Russia to use hard power and to apply a classical realist approach over such powerful state. The reason for not applying liberal institutionalism is strong government control of the national energy sector in Russia in which there is no place for energy trade with China without the Kremlin's control. Our second argument is that conflicting interests between Russia and China over the fossil fuels trade with Central Asia limit the positive impacts of their new partnership. Direct trade brings two countries closer to each other, but their conflicting interests in the neighbouring region also divide them. The combination of these centrifugal and centripetal forces creates a balance in their mutual relations and characterises their partnership. And our last argument is that Central Asian fossil fuels exporting countries are interested in diversification of trade and political relations in order to remain independent from Moscow and Beijing. In addition to a neo-mercantilist approach, we argue that the Kremlin uses some aspects of neo-imperialist strategy toward Central Asia, but new pipelines from this region to China decrease Russian influence over them.

This article has seven sections. After the Introduction, we shall present our methodological framework, a literature review about selected theories related to the strategies in international fossil fuels trade and analyse the role of fossil fuels in Putin's Russia's foreign policy. In the following two sections, we analyse data about direct gas and oil trade between the two countries and their involvement in the energy trade and production in Central Asia. Finally, we shall present our conclusions about Russian foreign policy toward China and Central Asia in the last section.

2 METHODOLOGICAL FRAMEWORK

This research relates to the areas of foreign policy and international relations. For an explanation of our theses, we will use theoretical ideas about geo-economics, and the ideal-typical strategies of geo-economic use of power proposed by Wigell (2016). They will be tested using a qualitative text analysis approach and supported by statistical data references acquired from primary sources (Vromen 2018, 249–250). By applying such a methodological framework, we shall attempt to demonstrate the political and economic circumstances that led Russia to adapt its foreign policy strategy towards China and Central Asian countries which cannot be perceived solely through the lens of geopolitics and classical realist theory. This will enable us to understand the position of Russia in energy relations with China and will serve as a bedrock for our subsequent

analysis, where we shall present official figures on the fossil fuels trade. Our first step will be to examine the literature on these approaches and to contextualise them within Russian foreign policy and its strategy of utilising fossil fuels as a means of achieving political and economic goals.

The statistical data in this paper are taken mostly from primary sources. We try to present the figures on the structure of the oil and gas sector in Russia and China as well as their fossil fuels trade in the most reliable and credible way, rather than showcasing the figures previously analysed or commented on by other authors. Therefore, our analysis contains original sources such as *Gazprom in Figures 2015-2019 Factbook* and *Gazprom Annual Report* from 2015 to 2019. These documents supply the data on Gazprom's business, including those on natural gas sales volumes to European countries and China, and purchases of natural gas from the Central Asia region, respectively. Our additional Russian source was *Lukoil Annual Report 2019*. Furthermore, we used CNPC official sources to shed light on Chinese co-operation and joint projects with Central Asia countries.

To avoid being dependent only on data provided by Gazprom and the CNPC, we use several other primary sources to gain insight into other aspects of Russian and Chinese energy portfolios. Thus, with figures from *British Petroleum Statistical Review of World Energy*, we compare the structural specificities of the Russian and Chinese oil and gas sectors (production-consumption, import-export, pipelines-LNG). Finally, we use the data from the *Trend Economy Open Data Portal* to identify the value of Chinese crude oil imports from Russia and the data from the *Observatory of Economic Complexity* for additional information on Russian crude oil exports to European countries and China. The figures from secondary sources are presented only when referring to Pirani's paper (2019) issued by The Oxford Institute for Energy Studies. Our focus is primarily on the 2010s when the energy trade between Russia and China was intensified, although we also analyse the development of relations in the previous period. Our analysis contains the fresh figures reaching as far as to 2019, since the data about 2020 are still neither available to us nor complete.

3 NATURAL RESOURCES AND THE ECONOMY IN THE POST-COLD WAR ERA

Many authors have described international relations in the Cold War using realist approaches which emphasise power and rivalry. In the post-Cold War era, old rival states started to use economic power for their foreign policy aims (Scholvin and Wigell 2018, 10) and some authors claim that "post-Cold War era is characterised not so much by political or ideological rivalry but by economic competition" (Wigell 2016, 136). With terms like geo-economics and geo-economic realism, they try to describe a new role of economy and natural resources in relations among states. Scholvin and Wigell, for instance, claim that "[G]eo-economics resonates with IR Realism by emphasising rivalry amongst states" (Scholvin and Wigell 2018, 5) and it "proceeds from the assumption that power and security are not simply coupled to the physical control of territory, as in classical geopolitical analysis, but also to commanding and manipulating the economic ties that bind states together" (ibid., 4). Wigell and Vihma (2016, 2) argue that main differences between geo-politics and geo-economics are how covert they are and what are their operational logic. First one is overt and confrontational, and the second is covert and selectively accommodational.

Wigell (2016, 137) claims that geo-economics is “*the geostrategic use of economic power*”, while Thorun (2009, 28) underlines that geo-economic realism is “mode of foreign policy thinking [which] shared with the previous period the assumption that international relations were characterised by competition”.

Despite the shift in international relations from an arms race to the use of economic resources, it is questionable whether it is possible for one government to rely exclusively on economic power or whether it is necessary to sometimes use hard power. In most cases, for virtually all states except the USA, it is too expensive to use the latter. War disrupts relations between states, causes tensions in international relations, and its outcome is questionable. It is more beneficial for governments to use national economic resources as a foreign policy tool. International trade enables them to achieve more of their political aims in domestic and foreign affairs than war and military conflicts do, and trade can contribute to the rise of their soft power. Problems arise when one government assumes that trade with other countries is not enough to stop threats to its country’s national security. It can attempt to interfere in the domestic affairs and foreign policy of other countries to achieve its own economic and security goals. In this regard, Deyermond (2016, 958–959) distinguishes between the Kremlin’s two approaches to sovereignty. One is post-Soviet and is intended for the “Near Abroad”, which means post-Soviet states. It limits their sovereignty because the Kremlin takes a stance that Russia has special interests there. The other approach is Westphalian and is intended for the rest of the world.

Economic resources could be used for different domestic and foreign policy reasons and each government is supposed to make a choice about this. Wigell (2016, 141–142, 146) sets out four possible ideal-typical strategies that governments can have for the use of economic resources in international relations: neo-imperialism, neo-mercantilism, hegemony, and liberal institutionalism. Neo-imperialism is used by government to establish “informal” empire by economic means (ibid., 142, quotation marks in the original text). “[I]t is not so much concerned with enlarging its territorial control, as with pursuing various forms of economic control, shaping the regional economic structure in such a way that makes weaker states dependent on the regional power” (ibid., 142). In contrast, neo-mercantilism is more about giving primacy to economic rather than geopolitical goals (ibid., 143). Ziegler and Menon (2014, 19) define neo-mercantilism as “a form of economic nationalism” and argue that “neo-mercantilist states seek to control the ‘commanding heights’ of the economy, the largest and most strategic sectors, through wholly state-owned firms or ones that in effect act as agents of the state and are supported by it in various ways.”

Hegemony emphasises regional leadership of one state for which its government uses economic power (Wigell 2016, 144). Esakova (2012, 68) argues “that for a country to be regarded as a hegemony within energy issue area, the following basic prerequisites should be in place: (i) access to crucial energy resources, (ii) availability of sufficient financial resources and (iii) technological know-how in order to be able to develop the energy resources, as well as (iv) large and diversified export markets for energy exports. Of course, the pure availability of these factors does not imply that a country automatically assumes a hegemonic position in energy area. However, unless these incremental preconditions are fulfilled, no energy hegemony is imaginable”. Finally, liberal institutionalism is only about economic objectives (2016, 145). We can argue whether some of the first three strategies are used by the Kremlin, but it is obvious that the Kremlin does not use liberal institutionalism in relations with its most important trade

partners. Pure economic goals are not something that could relate to Vladimir Putin's foreign policy.

Four ideal-typical strategies are useful for analyses of the Russian fossil fuels trade with China and Central Asia, but relations among them are not black and white. Ziegler and Menon (2014, 17) claim that the USA, Russia and China have interests in Central Asia and that the latter two "are driven in roughly equal measure by political and economic considerations. They have adopted neo-mercantilist policies (i.e., state-directed efforts aimed at making asymmetric economic gains at the expense of competitors, a concept we discuss at length below) to realise their goals in the region. The neo-mercantilist energy policies of China and Russia contribute to what is largely a competitive relationship among all three great powers in Central Asia". We agree that Russia has a neo-mercantilist strategy in Central Asia, but its relations with the region's states cannot be seen separately from Russian national security concerns and its post-Soviet sovereignty approach. Some regional organisations led by Russia are economic, but one is military. The important fact is that not all the region's countries are willing to accept participation in these organisations, which complicates the situation for the Kremlin's foreign policy makers. A neo-mercantilist strategy cannot satisfy all the Kremlin's goals, so it has to combine it with at least one more strategy.

4 THE ROLE OF FOSSIL FUELS IN PUTIN'S FOREIGN POLICY

President Putin from the very beginning of his Presidency wanted to revive Russia's power. He deployed two major means for this: the protection of national security and the development of economy. The former was primarily marked by the Kremlin's attempts to secure the country from external threats. It wanted to establish control over the "Near Abroad", even if it meant using hard power, like in Georgia and Ukraine, and to stop the eastward expansion of NATO. The latter was marked with regime's need to secure domestic legitimacy and financial resources to strengthen the state. Instead of an integration into Western political and military organisations, Putin's aim was to integrate Russia into the world economy without Western interference. This has not been an easy task because Russian economy could offer limited range of industrial commodities. However, the country has a plenty of natural resources highly demanded on world markets, particularly fossil fuels, and they became the Kremlin's "central security and foreign policy asset and instrument" (Petro 2011, 17).

The use of fossil fuels for economic ends and foreign policy goals is not new in Russia. In the 1960s, the Soviet Union built gas fields and pipelines for gas exports to Eastern and Western Europe. The gas trade continued after the collapse of the Soviet Union, but in Putin's Russia, the Kremlin's goal became higher - to make Russia the world's energy power. We can find evidence of this policy in Putin's academic paper from 1999, *Mineral Natural Resources in the Strategy for the Development of the Russian Economy*,² in which, as Balzer (2005, 214) claims, Putin presented idea of the necessity for the establishment of government control over the national energy sector: "rather than 'short term', Mr. Putin sees natural resources dominating Russia's economy for at least the next 50 years; he

² Balzer analyses the following article: Putin, V. V., "Mineral'no-syr'evyye resursy v strategii razvitiya Rossiyskoy ekonomiki," *Zapiski Gornogo Instituta*, 144, 3-9, 1999. As far as authors of this paper know, it is not available open access.

advocates creating vertically integrated financial-industrial groups to compete with Western multinationals; he considers both the state's role and the nature of property rights in the resource sector to be open to multiple institutional options that might coexist in time". After Putin became president, the Kremlin put oligarchs under its control, diminished the role of foreign companies in the domestic energy industry, and won control in major Russian oil and gas companies (Light 2009, 92, 94). Western companies continued to have stakes in the energy sector, but their ownership was limited.

It was a neo-mercantilist strategy combined with neo-imperialist and hegemonic strategies in foreign policy, depending on which countries it was applied to. The most lucrative markets for oil and natural gas were in the EU, but neo-imperialist strategy toward its member-states was not possible. There was no country ready to accept Russian dominance in this matter and the Kremlin was able only to try to establish its hegemony. Eventually, Russian attempts to act bilaterally in energy matters with European countries (Dimitrova 2010, 2), its aggressive behaviour in the Near Abroad, especially the annexation of Crimea in 2014, and its attempt to use natural gas as a leverage in its relations with small countries in Europe resulted with the stronger Brussels regulation over natural gas trade, particularly with the Third Energy Package of 2009. Russia's bilateral trade with small countries in the Baltic and East-Central Europe (ECE) weakened and the West imposed sanctions against Russia after the beginning of the war in Ukraine. The Kremlin tried to counter this with further diversification of foreign fuels export. It made new gas contracts and was building new pipelines toward Europe, like TurkStream and Nord Stream 2, but at the same it searched for new strategic partners in the world, particularly in Asia and its biggest market, China.

5 THE RUSSO-CHINESE FOSSIL FUELS TRADE

The turn towards China was not a radical, sharp re-orientation of Russian foreign policy. It was more an attempt to diversify foreign partners and an addendum to the existing orientation toward the antagonistic West, not its complete abandonment.³ Newfound interest in China was also compatible with Russian Eurasianist understandings of the country's role on two continents, which connects two worlds and civilisations (Donaldson and Nadkarni 2019, 15).

Relations between the USSR and Communist China were strained most of the time. Despite some warming in the 1980s, only the collapse of the USSR made possible the end of tensions and establishment of new relations between Russia and China. At that time, it was not clear what kind of relations would emerge. President Yeltsin and President Jiang proclaimed a constructive partnership between two countries in 1994 (Kaczmariski 2015, 8) and Russian foreign minister Yevgeni Primakov (1996–1998) suggested that China and India should become Russia's new strategic partners (Tsygankov 2016, 19). These proclamations coincided with the multi-vector foreign policy which started in Russia around this time due to its disappointment with the West (Kaczmariski 2015, 11). In 1996, two countries, plus Kazakhstan, Kyrgyzstan, and Tajikistan, signed agreements on the settlement of border disputes. Five years later, Russia

³ Curanović (2012, 225) points out that each time in history Russia has turned to Asia, it has been a reaction to Russia's disappointment with the West.

and China signed Treaty of Good Neighbourliness and Friendly Co-operation which became basis for their future political and economic co-operation.⁴

Russia and China have similar and complementary interests in trade. The latter has strongly built up its economy since Deng Xiaoping turned economic policy toward more pragmatic approach in the 1970s and became able to offer an array of cheap commodities to world markets. Strong industrial development demanded more energy than China could produce and it became net importer of oil in the 1990s, and of gas and coal in the 2000s (Wensley et al. 2013, 311). Moreover, its shift from coal to gas in recent years (Nezhnikova et al. 2018, 209) and rising urban population (Perkins 2013, 26) means its thirst for natural gas and oil is on the rise. If we compare data for only last few years we can see how sharp it is: China consumed 10,668 barrels of oil per day in 2013 and 14,056 barrels in 2019 (Table 1) and imported 6978 barrels of oil per day in 2013 and 11,825 barrels in 2019 (Table 1); it consumed 171.9 bcm in 2013 and 307.3 bcm in 2019 (Table 4) and imported 51.5 bcm of gas in 2013 and 132.5 bcm in 2019 (Table 5).

TABLE 1: THE STRUCTURE OF RUSSIAN AND CHINESE OIL SECTOR, IN THOUSANDS OF BARRELS PER DAY

	2013	2014	2015	2016	2017	2018	2019
Russia							
Production	10807	10860	11007	11269	11255	11438	11540
Consumption	3134	3298	3134	3219	3195	3282	3317
Export	7948	7792	8313	8814	8992	9080	9186
China							
Production	4216	4346	4309	3999	3846	3798	3836
Consumption	10668	11134	11911	12248	12842	13375	14056
Import	6978	7398	8333	9214	10241	11024	11825

Source: Data acquired from BP Statistical Review of World Energy 2020 (2020, 16, 21, 30).

On the other side of the border, Russia's economy was not able to offer to the world market what China could. The basis of their trade became commodities that each side needed from the other: China had a vast array of industrial products and Russia had modern arms and fossil fuels (Carlson 2018, 32). The arms trade was the most important dimension of their economic co-operation in the 1990s (Kaczmariski 2015, 11) and the energy trade came later, during Putin's presidency. The latter trade between the two is important in terms of diversification, which "is a key to energy security" (Esakova 2012, 59): for Russia, it means securing different markets for its energy (ibid., 39) and for China securing multiple stable energy suppliers. Chang (2014, 1–2) claims that problem with getting loans from the West and the financial pressure coming from decreases in oil production also motivated Russian side to turn to China. Finally, the energy trade with China was a way for Russia to develop its regions in the Far East, which face emigration, the "threat" of Chinese immigration, and prospect of economic colonisation from China.

⁴ At that time, the EU started to create policies of new relations with China for economic reasons (Gonçalves 2012, 66).

The possibilities for the fossil fuels trade were limited in the beginning. First, an increase of the oil and gas export demands appropriate production and transport capacities. Gas transport is still predominantly done by pipelines and Russia still does not have well-developed LNG infrastructure despite some efforts in recent years in the Baltic, Arctic, and Pacific regions. Second, pipelines require politically stable states through which they could be laid. The most secure way to build them is between neighbouring countries, which enables direct trade without danger of the third-party interruptions. China also tries to be less dependent on oil coming by shipping from the Middle East, an important source of its oil import (Yilmaz and Daksueva 2017, 8), because the US Navy could threaten shipping routes (Blank 2006, 56; Carlson 2018: 35). Blank (2006, 56) argues that “[t]his explains why China is building pipelines from Kazakhstan to Shanghai”.

The expansion of the oil trade was a slow process, and, in the beginning, oil was exported to China by rail. The Yukos company of the oligarch Mikhail Khodorkovsky attempted to start this export by a pipeline in early 2000s (Lo 2008, 143). After the Kremlin consolidated its control over the national gas and oil sector and Yukos went to bankruptcy, the project was abandoned (Ziegler and Menon 2014, 33). This led China to focus itself more on Central Asian energy markets (ibid., 33). However, too much was at stake to miss opportunities and benefits from the mutual energy trade. The first big deal was completed in 2009 between the Russian state-controlled companies Transneft and Rosneft as well as China National Petrol Corporation (CNPC) about the completion of the oil pipeline between the two countries (Holtzinger 2010, 72). It was opened in 2010 with a capacity of up to 30 million tons per year (Hsu and Soong 2014, 76). In addition, the China Development Bank in 2009 gave loans to Gazprom and Rosneft in exchange for 15 million metric tons of oil per year (Chang 2014, 1–2). Unlike Yukos’s aborted attempts, these government-backed agreements were successful and Chinese import value of crude oil from Russia has since 2010 seen an annual rise (Table 2). In 2010, it was smaller than exports to the Netherlands, Germany, and Poland, comprising only 5.33% of total Russian export, but in 2018 China imported 26.2% of total Russian exported oil, becoming its number one destination (Table 3).

TABLE 2: CHINA’S IMPORT VALUE OF PETROLEUM OIL (CRUDE) FROM RUSSIA AND KAZAKHSTAN, IN BILLION USD

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Russia	8.882	16.322	20.485	19.742	24.950	17.242	16.889	23.994	37.889	26.492
Kazakhstan	5.552	8.858	8.719	9.375	4.222	1.887	0.832	0.888	1.148	1.327

Source: Data acquired from UN Comtrade, Annual International Trade Statistics by Country (2020).

TABLE 3: RUSSIA'S PETROLEUM OIL (CRUDE) TOP EXPORT DESTINATIONS, 2010–2018, IN %

	2010	2011	2012	2013	2014	2015	2016	2017	2018
China	5.33	9.17	10.1	10.4	14.1	16.8	19.7	21.4	26.2
Netherlands	17	13.5	16.5	14.6	15	14.2	15.5	14.7	15.2
Germany	10.1	11.2	11.2	10.2	9.49	9.75	10.3	10.4	8.73
Poland	8.33	9.15	9.08	8.99	8.76	8.1	7.08	6.6	6.49
South Korea	3.55	3.17	3.13	3.41	4.13	4.88	3.9	4.04	6.04
Belarus	3.74	3.67	4.51	4.46	4.96	6.21	5.27	5.48	5.06
Italy	4.49	4.01	3.97	4.62	4.34	3.69	2.88	3.2	4.31

Note: Countries taken into consideration are the top export destinations in 2018. Data acquired from Crude Petroleum in Russia (2020).

The development of the gas trade between the two countries was slower than the oil trade. For years, Russia wanted to establish direct gas trade with China, but at least two geographical factors affect Russian attempts at gas export diversification. First, main Russian gas fields are in northwestern Siberia. Their exploitation started in Soviet times and were later expanded. There were two options to start gas exports to China: to build pipelines from these fields to China or to open new fields with new pipeline somewhere closer to that country. These options relate to the second factor: Russia and China have borders on two geographically divided sections. The western is around 100 km long and is located between Mongolia and Kazakhstan. The eastern is between eastern Siberia and Manchuria and is around 4000 km long. Such division made possible two entry points and two different strategies of exploitation. If the western sector had been chosen, it would have been possible for Russia to use western Siberian gas fields for exports to China and thus would have an impact on both Russian gas exports to Europe and its foreign policy. If the eastern sector had been chosen, it would have required development of completely new gas fields in eastern Siberia and new pipeline from there to China. In both cases, unlike gas exports to Europe, which has been done with infrastructure built mainly in the Soviet times, completely new infrastructure would have had to be built in Siberia for export to China. This endeavour supposed major involvement of the state, not only companies, and negotiations between Moscow and Beijing. China encountered similar problems. As most other maritime countries, it had two options: to do this by pipelines or by LNG shipping. China has used both, but pipelines are more suitable for stable supply and Beijing thus had an interest in starting gas trade with neighbouring countries.

TABLE 4: THE STRUCTURE OF THE RUSSIAN AND CHINESE GAS SECTORS, IN BCM

	2013	2014	2015	2016	2017	2018	2019
Russia							
Production	614.5	591.2	584.4	589.3	635.6	669.1	679.0
Consumption	424.9	422.2	408.7	420.6	431.1	454.5	444.3
China							
Production	121.8	131.2	135.7	137.9	149.2	161.5	177.6
Consumption	171.9	188.4	194.7	209.4	240.4	283.0	307.3

Source: Data acquired from BP Statistical Review of World Energy 2020 (2020, 34, 36).

TABLE 5: COMPARISON OF RUSSIAN NATURAL GAS EXPORTS AND CHINESE NATURAL GAS IMPORTS, IN BCM

	2013	2014	2015	2016	2017	2018	2019
Russian export							
By pipelines	210.7	189.6	194.2	202.0	219.7	221.3	217.2
By LNG	14.5	13.6	14.6	14.6	15.4	24.9	39.4
Overall	225.2	203.2	208.8	216.7	235.2	246.2	256.6
Chinese import							
By pipelines	26.4	30.3	32.4	36.8	39.9	47.9	47.7
By LNG	25.1	27.3	27.0	36.8	52.9	73.5	84.8
Overall	51.5	57.5	59.4	73.5	92.8	121.3	132.5

Source: Data acquired from BP Statistical Review of World Energy 2020 (2020, 40).

The turning point in the Russo-Chinese gas trade came after the escalation of the Crimea crisis in 2014 when Russia softened its stance toward China to recover its shaken international position (Gabuev 2016, 68–69). Yilmaz and Daksueva (2017, 18) point out that the start of greater co-operation was also a kind of Chinese help to Russia to overcome consequences of Western sanctions.⁵ In May 2014, Gazprom and CNPC signed a 30-year contract which would bring to China 38 bcm of gas per year (Weitz 2014, 80). As was the case with some European countries, signing the deal with China was not an easy task for the Russian side. Negotiations lasted ten years (Nezhnikova et al. 2018, 207) and in terms of price, it was a race to the top for Russians and race to the bottom for Chinese. Both sides wanted to achieve the best for itself, with the Russians wanting “the same price” they had for European markets (Weitz 2014, 82). Eventually, they agreed for a price of about 350 USD per thousand cubic meters (ibid., 82). The Chinese side wanted a pipeline entry into east China (Yilmaz and Daksueva 2017, 11) and the May 2014 contract includes the construction of a completely new pipeline called Power of Siberia in eastern Siberia from two new gas fields north of Baikal. It came into operation in December 2019. Russia wanted to build gas pipeline Power of Siberia 2 in the western section of their borders to diversify its exports from western Siberia fields (ibid.), but Chinese approval came only after Power of Siberia gas route was confirmed in the May 2014 agreement (Sharples 2016, 899, 901).

During the Eastern Economic Summit in 2018 in Vladivostok, the Chinese authorities expressed interest in new gas pipelines from Russia: the already agreed Power of Siberia 2, with a capacity of 30 bcm/year, and the Far East pipeline, with a projected capacity of 5–10 bcm/year (Henderson 2018, 9). The Power of Siberia 2 was supposed to deliver Russian gas to western China via the Altai route through the Ukok Plateau. However, in early 2020, the pipeline was faced with opposition from Altai people who claimed that the Ukok Plateau is culturally and environmentally significant due to its lakes, rivers, and biodiversity (Altai People Against the ‘Power of Siberia 2’ gas pipeline to China, Russia 2020). The plans for the construction were eventually changed and instead of going across the Altai route to western China, the pipeline will run

⁵ An important precondition for Russo-Chinese co-operation was the disappearance of ideological differences, too. Wishnick (2016, 4) points out that their contemporary relations stem from now having more similar values and interest, like non-interference in domestic affairs and views on Western actions in some part of the world.

through Mongolia, to the high-consuming region in eastern China, only 560 km away from Beijing, with a capacity of 50 bcm/year, as was reported by Gazprom CEO, Alexei Miller (Pallardy 2020). The preliminary agreement between Gazprom and CNPC stood at 30 bcm/year and while Russia wants to increase the overall export via Power of Siberia 2, Beijing remains sceptical and would prefer to discuss the terms as initially agreed (ibid.).

Russia's turn to China did not end with pipelines. It also opened the Russian energy sector to Chinese investors (Carlson 2018, 34), particularly in LNG production. The CNPC has 20% and Silk Road Fund 9.9% of the shares in the Yamal LNG project (About the Project 2020). This gas facility is important for both sides in terms of diversification, but primarily for Russia. It exploits gas resources in the Yamal region in north-western Siberia where gas was previously produced and transported from via pipelines only to European and Russian markets. This gas is now available via LNG to be shipped to world markets and there has been a strong rise in sales of this gas to China since 2017 (Table 6).

TABLE 6: GAZPROM'S NATURAL GAS SALES VOLUMES, IN BCM

	2015	2016	2017	2018	2019
Top European destinations					
France	10.5	12.5	13.3	13.3	13.0
Turkey	27.0	24.6	29.0	24.0	15.4
Italy	24.4	24.7	23.7	22.6	22.0
Germany	47.4	57.9	67.1	65.7	44.9
United Kingdom	22.5	25.7	29.1	34.2	59.0
China	0.2	0.2	0.8	0.8	1.5
Power of Siberia	-	-	-	-	0.3
LNG*	6.6	3.4	29.4	29.2	41.4

*in trillion BTU (British thermal units).

Source: Data acquired from Gazprom in Figures 2015-2019 Factbook (2020, 82-83).

Despite these investments and the rise in exports, the main Russian problem is that its attempt to become much less dependent on European markets is still not achieved (Table 6). The volume of natural gas exports to China by pipelines and LNG in 2019 was still smaller than exports to some European countries and only oil had achieved large volumes of export by that time (Table 3). The Kremlin's consolidation of control over the national energy sector, the underdeveloped pipeline infrastructure, and Chinese policies to diversify its energy import became the bedrock for Beijing's turn to Central Asian fossil fuels. Putin's neo-mercantilist strategy thus in its early years had some negative consequences for trade with China because the Kremlin was not able or ready to conclude trade agreements as fast as it was done by Yukos under Khodorkovsky.

6 RUSSIAN AND CHINESE INTERESTS IN CENTRAL ASIA: THE THREE-SIDED DIVERSIFICATION

The strategic location and abundance of fossil fuels in Central Asia make it the setting of the so-called New Great Game (Kleveman 2003; Kim and Indeo 2013). Its resources are attractive for net importers, like China and the EU, but also to

Russia, USA and even Iran. The Kremlin has pursued a neo-imperialist strategy in the region, seeing it as a part of the Near Abroad to which other powers should not have access. Russia leads regional organisations in the Near Abroad, which includes some Central Asian states but not China, like the Commonwealth of Independent States (CIS), the Collective Security Treaty Organisations (CSTO), and the Eurasian Economic Union (EAEU). Turkmenistan declared its neutrality in the 1990s and is not member of any of these organisations, Uzbekistan is a member of the CIS, Tajikistan is a member of the CIS and the CSTO, and Kazakhstan and Kyrgyzstan are members of all three organisations. This indicates that only one energy rich country in the region is a member of all organisations, one is a member of only one organisation, and one is a member of no organisations at all. There is only one important organisation which includes China. It is Shanghai Co-operation Organisation which was established in 2001 and it includes Russia, China, India, Pakistan, and all the Central Asian states except Turkmenistan.

China has interests in the region similar to Russia's. One is a security, which is related to the pre-dominantly Muslim westernmost Chinese region of Xinjiang. Beijing's fear of "the three evils" - terrorism, extremism and separatism" (Herd 2014, 186) and Soviet interference in this part of China in the past made Chinese government cautious in its approach to this territory. Secondly, Chinese interests primarily relate to Central Asian fossil fuels and markets for Chinese products. Andrews-Speed and Vinogradov (2000, 393) argue that reasons related to energy policy and foreign policy made China interested in the oil exploitation of the region already in the 1990s and Kazakhstan became the first Central Asian country from which China imported oil (*ibid.*, 390). The region's importance for China also stems from the problems in a direct energy trade between Russia and China in 2000s (Hsu and Soong 2014, 84) and from the unsuccessful realisation of Chinese plans for gas and oil trade with Iran (Pikayev 2009, 80). Because of this, "Central Asian relations are a natural extension of China's policy of developing more amicable relations in the international system, otherwise known as 'peripheral' (*zhoubian*) diplomacy" (Lanteigne 2010, 173).

TABLE 7: GAZPROM'S PURCHASES OF NATURAL GAS IN CENTRAL ASIA FOR SUPPLIES TO FAR ABROAD COUNTRIES, BCM

	2013	2014	2015	2016	2017	2018	2019
Turkmenistan	10.9	11.0	3.1	-	-	-	4.0
Uzbekistan	5.7	3.6	3.5	4.3	5.5	3.8	4.9
Kazakhstan	11.9	10.9	12.6	12.7	13.8	12.3	11.3

Source: Data acquired from *PJSC Gazprom Annual Report* from the years 2015 (104), 2016 (82), 2017 (139), 2018 (122), 2019 (117), respectively.

Central Asian countries also have interest in trade diversification and China's entry into this region could be beneficial for them. The country perhaps most interested in this is the region's chief gas producer, Turkmenistan. Natural gas has been its most important economic resource and important for the economic development and for the survival of Niyazov (Kunysz 2012, 1-2) and later Berdimukhamedow regimes. Its major problem is how to sell potentially vast production, due to its unfavourable geographical position and, in the recent past, the lack of pipelines which would connect Turkmenistan with world markets. For almost two decades after the dissolution of the USSR, the transport of Turkmen gas depended on Russia which had pipeline connections with Turkmenistan built

in Soviet times.⁶ Russia's position of a sole transport provider caused occasional disagreements between two countries. It enabled Russia to extract profit as much as possible by selling Turkmen gas on world markets for much higher prices than the ones it paid for it to Turkmenistan and to use this position as a leverage against Turkmenistan (Hancock 2006, 71). Turkmenistan also refused to enter the Russia-led regional organisations and legally obliged its citizens to have only one citizenship, which resulted with immigration of ethnic Russians from Turkmenistan.

The energy relations between the two countries deteriorated when the Kremlin started to show muscles of its neo-imperialist strategy. After the explosion of Central Asia-Centre gas pipeline's fourth line in 2009, accusations were made blaming Moscow (Kuchins et al. 2015, 15). In the same year, Gazprom requested "a revision of the oil-linked price formula agreed with Turkmenegaz in 2008" (Pirani 2019, 12). Following the failure of negotiations, Russia had decided to minimise the purchase of Turkmen gas for the next couple of years, with a complete stop between 2016 and 2018, focusing more on annual, rather than long-term contracts (Kuchins et al. 2015, 16). To resolve the problem of being dependent on Russia, Turkmenistan needed new pipelines which would not go over Russian territory. There were a few possibilities. First, and from this point of view bizarre one, was to build gas pipeline over Taliban-controlled Afghanistan in the late 1990s to reach Pakistan and India (Rashid 2010, 173). Others were more realistic, but they also depended on good relations with neighbours. The second was under the Caspian Sea and toward Azerbaijan, but Russia complained about the ecological risks (Moscow stands against unilateral actions for Trans-Caspian gas pipe construction 2015). The third was toward Iran. Despite having one of the biggest world gas reserves, Iran has imported Turkmen gas since the completion of gas pipeline between the two countries in 1997 to satisfy its needs (Giuli 2008, 126; Hancock 2006, 74), but the quantities were small. The fourth solution was toward China.

Disagreements between Moscow and Ashgabat resulted in the decline of Russian influence in Turkmenistan, but also in the rise of the Chinese factor. A lack of infrastructure was an obstacle for the trade, so Beijing had to invest both in new pipelines as well as in new production fields. Unlike Russia, China possesses money for investments and it rapidly built its gas network in 2000s. In 2003, it had 21 thousand km (Hancock 2006, 78–79) and in 2019 the CNPC owned 55,810 km (Natural Gas & Pipelines 2021). It finished a 4000 km-long West-East gas pipeline intended for the gas import from Central Asia to its east coast (Chang 2014, 5) and in 2009 connected it with the pipeline network in Central Asia. The Central Asia-China gas pipeline consists of three parallel lines (A, B, C) and currently has an overall capacity of 55 bcm/year. With the addition of already planned line D, the overall influx from Central Asia to China could hypothetically reach 85 bcm/year.

In 2007, the CNPC signed a production share agreement with Turkmen State Agency for Management and Use of Hydrocarbon Resources that encompassed joint development and the exploration of gas fields on the right bank of Amu Darya River and then a natural gas and oil purchase agreement with Turkmengaz (CNPC Worldwide: CNPC in Turkmenistan 2020). The deal was to export 30 bcm of Turkmen gas to China per year in the following three decades (CNPC Worldwide: CNPC in Turkmenistan 2020). In 2013, the CNPC and Turkmengaz

⁶ Gleason claims that the potential of the gas revenue was such that Turkmenistan's officials were surprised by it after Turkmenistan became independent in 1991 (Gleason 2010, 79).

signed an additional gas sales and purchase agreement for 25 bcm of annual delivery that would eventually bring overall Turkmen gas exports to China at 65 bcm a year by 2020. The deal also included an engineering, procurement, and construction agreement on the Galkynysh gas field for 30 bcm/a production capacity building (CNPC and Turkmengaz Ink an Agreement on Boosting Natural Gas Shipments to China and a Gas Field EPC Contract 2013). The China Development Bank is financing the field with approximately \$8 billion in loans (Kuchins et al. 2015, 13).

The realisation of these agreements came as a blow for Russian profits coming from the transport of Turkmen gas (Ziegler and Menon 2014, 23–24). In 2010, Turkmenistan exported 21.2 bcm of gas, with 10.7 bcm going to Russia or through the Russian network and only 3.5 bcm was exported to China (Pirani 2019, 2). In 2018, the situation was completely different. That year, Turkmenistan exported 37 bcm of gas and almost all went to China, 34.5 bcm (Pirani 2019, 2). That is almost the same amount of gas which is planned to come from Russia to China via Power of Siberia. This turned Turkmenistan from a country exploited by Russia to an independent gas producer and its main competitor in gas trade with China thanks to trade agreements with this country. Turkmen gas is also a trump card in Chinese hands for the gas trade with Russia (Holtzinger 2010, 78). Xu and Reisinger indicate that geographical proximity between Central Asia countries and China is a factor that was often neglected by Russia when attempting to use the higher gas prices and delay pipeline construction as leverage against China. Now, with agreements signed between the CNPC and Turkmengaz, and plans for development line D of Central Asia-China gas pipeline on table, Beijing has decreased the demand for Russian gas and successfully shifted the balance of power in the region to its advantage (Xu and Reisinger 2018, 10).

China has wider economic interests in the region beside fossil fuels. The Silk Road Economic Belt initiative intended for Central Asia was announced in 2013 (Samokhvalov 2018, 40) and it prompted Russian fears about losing influence and economic interests in the region (Gabuev 2016, 65–66). Russia tried to revive its power by different means, and at least two related to the fossil fuels trade. First was the prevention of Chinese influence in the region by establishing bigger energy trade between two countries, as Yilmaz and Daksueva argue (2017, 13). If Russia wants to limit the consequences of the Chinese shift to Central Asian energy markets, then it must make additional effort to bind China to itself. First came the expansion in the oil trade and Russia eventually became a major exporter of this commodity to China. In 2010, China imported oil from Russia for 8.882 billion USD and from Kazakhstan for 5.552 billion USD (Table 2). Nine years later, import from Kazakhstan was worth only 1.327 billion USD and from Russia 26.492 billion USD (Table 2). The expansion in gas trade has been slow, but eventually Russia benefited from the disruption of gas exports from Central Asia. An example of this is 2017–18 winter crisis, when Turkmenistan exported smaller amount of gas to China than had been agreed, an event that sounded the alarm for Beijing as imports from Central Asian ally were not as secure as had been hoped (Henderson 2018, 15). Henderson argues that because of this crisis, a decision of the Chinese authorities to establish even closer energy ties with Russia, expressed at the aforementioned Eastern Economic Summit in 2018, seemed to be a rational choice, given the Russian need for money influx, reliability of their supply, Chinese growing demand, and the already agreed Power of Siberia project (ibid., 18).

The second way was a start of new co-operation with regional countries by concluding contracts with their governments on the fossil fuels trade. Following a three-year halt in energy trade between Russia and Turkmenistan, and arbitration process in Stockholm in which Gazprom sued Turkmenengaz for gas overpayment during the 2010–2015 period and demanded financial compensation, Gazprom resumed imports via Central Asia–Centre gas pipeline on 15 April 2019 (Socor 2019). Socor (*ibid.*) argues that the new arrangement is *de iure* based on the 2003 inter-governmental agreement which mandated an annual delivery of 40 bcm for a 25-year period from 2003 to 2028, but, as Pirani claims (2019, 12), the actual conditions are set to 5.5 bcm of gas delivery under a five-year contract, from 2019 to 2024. Russian co-operation with Kyrgyzstan started in 2003 with a gas agreement between Gazprom and Kyrgyz government (Foreign projects: Kyrgyzstan 2020), and Gazprom has owned Kyrgyzstan's gas network since 2013 (Freeman 2017, 13). However, Kyrgyzstan is not a gas exporter and does not play any significant energy role in Central Asia.

Uzbekistan's co-operation with China dates back to 2007 when Uzbekneftegaz and CNPC "signed a cooperation agreement on exploration and development" of the Mingbulak Oilfield (CNPC Worldwide: CNPC in Uzbekistan 2021) and was further intensified in 2013 when the two companies began their joint venture on three other gas fields (CNPC Worldwide: CNPC in Uzbekistan 2021). Gazprom is currently involved in the development of gas reserves at the Shakhpakhty field, a project that began in 2004, but the results are still unknown; and the 2018 hydrocarbon production project at the Djel field (Gazprom in Figures 2015–2019 Factbook 2020, 46). Lukoil, however, appears to be a front-runner in the gas production business lately. "In 2019, Uzbekistan accounted for 40.3% of the gas produced by Lukoil Group and 81.9% of the Group's overall gas production outside Russia" (Lukoil Annual Report 2019 2021, 57). Uzbekistan uses far more gas for domestic consumption than Turkmenistan, around 43–46 bcm/year, probably due to its larger population, while it exports smaller volumes to China and Russia, with exports to China being on the rise (Pirani 2019, 14, 21, 22). The situation is similar with the export and transport of Kazakh natural gas. Its total export was 12.7 bcm in 2010, and 12.4 bcm went to Russia or through Russian network and nothing to China (*ibid.*, 23). In 2018, Kazakhstan exported 18.4 bcm of gas, with 12.3 bcm going to Russia or through Russian network and 5.8 bcm to China (*ibid.*, 23). In all three cases, Russian imports and transport of natural gas from Turkmenistan, Uzbekistan and Kazakhstan in the period 2010–2018 was steady or decreased and that of the Chinese increased.

Russian attempts to revive its presence in the region by concluding new contracts with regional governments have had smaller effects than tying China to itself by concluding Russo-Chinese contracts. Both countries are competitors, but interests for co-operation force them to accommodate each other's interests in the region to avoid conflict: The Kremlin had to accept Chinese presence in Central Asia and Chinese foreign policy became careful towards Russian interest there (Gabuev 2016, 62). It is not possible for Russia to pursue a hegemonic strategy in the fossil fuels sector anywhere in the region, but it can try to pursue a neo-imperialist strategy by a combination of energy trade with regional military and economic organisations which it leads. Nevertheless, even this strategy faces a rise of Beijing's influence and its attempt to include Central Asia into its future economic empire. The Russian attempt to preserve its influence in the region is showing its shortcomings. Russia does not possess the financial capacities to build gas fields and transport infrastructure in the region like China does. Beijing is ready to finance projects intended for gas imports from Russia

and Central Asia and without this, they would not be able to fulfil their contract obligations toward China. This fact is important in determining Russian energy power since a lack of “availability of sufficient financial resources” degrades its status as a “*hegemony within energy issue area*” (Esakova 2012, 68). Having a problem with financing its own energy projects, Russia is even more dependent on finding new markets for its gas and oil or to widen its co-operation with existing ones. Since Europe is reluctant to do that, China and oversea markets are the only possible targets for achieving this aim, but without showing any neo-imperialist or hegemony aspirations toward them.

7 CONCLUSION

Diversification is one of the *spiritus movens* of Putin’s foreign policy. Basic Russian strategy in international fossil fuels trade since 2000 is neo-mercantilist, as some authors have already argued. This strategy is not satisfactory for the rise of Russian power and influence in the Russian neighbourhood and the Kremlin has to combine it with other strategies to achieve its goals. In some cases, such a combination is not possible, but in others their selection varies depending on which country they apply to. The Kremlin uses only a neo-mercantilist strategy for relations and trade with China. China’s economic strength, its status of a regional power, and the fact that Beijing needs Russian fuels, but it is not dependent on them make an establishment of “hegemony within energy issue area” difficult for the Kremlin. Consequently, Russia has to balance its approach to China. It is mostly visible in the May 2014 agreement when Moscow gave some concessions to Beijing to make possible an agreement on the gas trade after a decade of negotiations. Russia so far achieved benefits from this by getting a new big trade partner, new loans and investments, and China had to accept that Russia has its own *legitimate* interests in Central Asia.

Russia must accept the fact that China is interested in Central Asia as well and that the region’s countries have an interest in co-operating with it. This Sino-Central Asian co-operation resulted in the reduction of Russian influence in the region and the Kremlin thus cannot combine the neo-mercantilist strategy with the hegemony strategy there, but still has an opportunity to use some other strategies beside basic neo-mercantilism. Probably the most viable is the neo-imperialist strategy due to the existence of regional economic, military, and political organisations led by Moscow. The problem for the Kremlin is that these organisations are not integrated like their Western counterparts due to the smaller economic power of Russia and the lack of interest of Central Asian member-states in belonging to highly integrated organisations in which one powerful state would be a hegemon. For energy producing countries in the region, it is more lucrative to diversify co-operation with the both sides (Russia and China) and to secure other partners in the world than to take one-side approach. Diversification, thus, becomes one of the major forces that influence their foreign policies.

This all results in multilateral interdependency in the triangle Russia-Central Asia-China and a balance of power in terms of the mutual fossil fuels trade. It has decreased Russian influence in the region, but it did not diminish it. Nevertheless, it is questionable how long the Kremlin will survive there because of the widening gap between the Chinese and Russian national economies and narrowing gap between their militaries. The Kremlin’s retreat from the West and its lack of a real strategic and close partnership with China could thus further

diminish Russia's role and power in international relations in the foreseeable future.

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RUSKO-KITAJSKO IN SREDNJEAZIJSKO TRGOVANJE S FOSILNIMI GORIVI: DIVERZIFIKACIJA IN GEO-EKONOMSKO RAZMERJE MOČI

Članek govori o vlogi fosilnih goriv v ruski zunanji politiki in o geoekonomskih strategijah, ki jih Kremelj uporablja za Kitajsko in Srednjo Azijo. Trdimo, da Rusija uporablja geoekonomski realistični pristop in neomerkantilistično strategijo do Kitajske. Naš drugi argument je, da jih želja po diverzifikaciji in neposredni trgovini zbližuje, toda hkrati jih razdvajajo nasprotujoči si interesi v Srednji Aziji. Kombinacija teh centrifugalnih in centripetalnih sil povzroči ravnovesje v rusko-kitajskih odnosih in je značilno za njuno novo partnerstvo. Nazadnje se tudi srednjeazijske države, izvoznice fosilnih goriv, zanimajo za diverzifikacijo trgovine, da ostanejo neodvisne od Moskve in Pekinga. Trdimo, da lahko Kremelj uporabi nekatere vidike neoimperialistične strategije do Srednje Azije, vendar novi cevovodi proti Kitajski zmanjšujejo prevladujoč ruski vpliv v regiji. Raziskave zajemajo obdobje 2000–2020, za raziskavo pa se uporabljajo referenčni statistični podatki, pridobljeni iz primarnih virov.

Ključne besede: Rusija; Kitajska; srednja Azija; fosilna goriva; geo-ekonomski realizem.