



# Sino-Russian Energy Relations: Dimensions and Prospects

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## Abstract

Access and control of Energy has not only been historically instrumental in the sociopolitical and economic shaping of nations, but also central to the global world of politics, systems, and geopolitics. Energy resources of the Russian Federation have made the country more influential in world politics. Energy and geopolitical issues are especially important to modern People's Republic of China as a tool for the country's economic growth. Since the mid twentieth century, both countries have attempted to establish mutual energy cooperation as a key component of their strategic alliance based on producer-consumer needs and the Good Neighborly Treaty. Nonetheless, since the end of the cold war in the 1990s, the energy negotiations have been long and unproductive because both nations are on both sides of the energy market. For the Russian Federation, revenue from its oil and gas sector traditionally makes up a large portion of its budget. Thus, Russia is unwilling to make concessions and involve China in its major upstream energy projects. In the interim, China also seeks to diversify its oil and gas resources and imports for its own political dependency, growth, and to prevent countries from overreliance on one single source and market. Issues such as pricing and the provisions of agreements have made the energy relations between the two countries more complex than the relations between producers and consumers. Despite the two countries being neighbors, their relations have not been developed.

**Keywords:** China, Energy Policy, Gas, Oil, Russia

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## 1. Introduction

Following new sociopolitical realities and the so called new world order after the collapse of the Soviet Union in the early 1990s and the post 9/11 period, the Russian federations and the People's Republic of China have expanded mutual cooperation and strategic relations, particularly in the political and economic fields, as well as in the energy sector as a subset of economic relations. The common political goals of both countries are to oppose the unilateralism and the interventionist policies of the United States of America and to establish stability and security in the region, which has led to the convergence the two countries' policies.

After the failure of Russian privatization in the 1990s, the government played a decisive role in economic affairs and assumed leadership by focusing on the energy sector. Consequently, the issue of energy and government policies in the energy sector became an influential element in foreign policy. During this period, the policies of the People's Republic of China focused on the country's economy. Despite differences in national goals, both countries tended to stabilize their region and borders (Yeltsin & Zemin, 1997, p. 987). The energy link between the Russian Federation and China, which is based on the border, producer-consumer relationship, and interdependence of the two countries in this sector, provides economic benefits for both countries.

The Russian Federation is one of the world's largest oil and gas producers. By 2020, it will account for 12% of world oil production and 17% of world gas production (BP). It must be acknowledged that Russia joined the emerging markets with the average growth of 7% through its sudden earnings from the oil revenues since the beginning of 2000 (Popova, Jabalameli, & Rasoulinezhad, 2017, p. 27). Earnings from the oil and gas sector of the Russian Federation

form a large part of the Russian Federation's revenue. According to some statistics, direct and indirect revenues from hydrocarbons account for 70% of the Russian Federation's budget (Movchan, 2015). The energy sector is closely linked to the country's macro-economy, with energy being an influential element in the power and foreign policy of the Russian Federation. China's economic growth and development has increased its growing need for energy resources, and due to a lack of domestic resources, China has become more dependent on international energy sources. Since energy plays an important role in the country's economic growth and development, the expansion of interaction with countries in possession of energy resources has paved the way for interdependence between China and these countries, such as the Russian Federation.

In the 2000s, Putin consistently stressed the importance of increasing strategic cooperation between the Russian Federation and China. In 2012, Putin personally wrote that China's economic growth was not a threat to the Russian Federation but an opportunity, and that total imports and exports in trade between the Russian Federation and China increased from \$8 billion in 2000 to \$57 billion in 2008 (China Statistical Yearbook, 2009). In the last days of 2020, President of the Russian Federation (Vladimir Putin) and President of the People's Republic of China (Xi Jinping) considered 2021 important in the relations between China and the Russian Federation. The Chinese leader stressed that in 2021, the two sides will focus on the 20<sup>th</sup> anniversary of the signing of the Treaty of Good Neighborliness, Friendship, and Cooperation (2001), which will contribute to the active development of friendship between the two countries (Ivanov & Fuzhan, 2021, p. 19). The purpose of this study is to determine whether the relations

between the two countries have been achieved at the expected level despite their interdependence and the emphasis of the leaders of the two countries on cooperation in this field.

## 2. Theoretical Framework

Interdependence in world politics refers to situations that are characterized by interactions between countries and actors in different countries (Moshirzadeh, 1384 [2005 A.D.], p. 49). The most general definition of interdependence suggests a relationship of interests such that if one nation's position changes, other states will be affected by that change. One of the important assumptions of this view is that the more foreign exchange there is, the greater the interdependence between governments (Rosecrance & Stein, 1973, pp. 2-4). In the theory of interdependence as propounded James Rosenau, the growing interactions that have arisen between individuals around the world have pervaded the crisis of national sovereignty (Keohane, 1984, p. 12).

The relations between the Russian Federation and China in the field of energy can also be explained within the framework of the theory of interdependence. The Russian Federation and China interact on the basis of basic needs, such as the energy exporter-importer relationship. Their interactions also draw on the existence of the necessary conditions for energy cooperation, such as having a common border. The Russian Federation and China, based on their understanding of each other's interaction, have taken steps towards common energy cooperation, although there are differences in their relations in the energy sector.

To determine the type of interdependence between the Russian Federation and China, it should be noted that both countries avoid

conditions that allow for asymmetric interdependence. Although China needs energy resources in the course of its economic development, it seeks to reduce its dependence on international energy resources and seeks to diversify its energy resources and security in energy policy and diplomacy. China is also cautious in its energy relations with the Russian Federation and does not want to depend on the Russian Federation for energy. The Russian Federation is refraining from becoming a passive country and merely an exporter of raw energy resources to China. The country aims at diversifying its export products in the field of energy and geographical sources of energy supply. Improving the quality of export goods and services is one of the goals of the Russian Federation's strategic foreign energy policy. On the other hand, the Russian Federation does not seek to develop and expand China's role in the upstream projects of the Russian Federation due to the close relationship between the oil and gas sectors and the financial capacity of the government and the macro economy.

### **3. Sino-Russian Relations**

Despite progress in political and economic relations, energy relations between the two countries remained underdeveloped. Oil prices peaked in 2000, and by 2007 oil production in the Russian Federation had risen, giving the country a rise in oil prices and production, with the Russian Federation seeking maximum profits in energy deals. Naturally, China, as a consumer country less sensitive to energy resources in terms of political interests, was looking for cheaper options. That is, China and the Russian Federation, despite having complementary energy needs, were on opposite sides of the energy market. For example, in 2002, the Duma of the Russian Federation opposed the acquisition of the Russian Federation's

Slaven Oil Company by the State Oil Company of China (Kuhrt, 2007, p. 66). The reluctance of the Russian Federation to develop energy relations in the world and in the region can be justified, because the development of energy trade with China could intensify the deteriorating economic situation of the Russian Federation and contribute to the growth of China's regions. In addition, the development of relations with a powerful China could provide an incentive for Central Asian countries to reduce the influence of the Russian Federation. However, there were negotiations on energy pipelines, and the Russian Federation used multiple customers in the construction of the pipeline to China to reduce potential dependence on China, thereby reducing costs and curbing the monopoly of Chinese demand.

In October 2004, CNPC and Gazprom signed a strategic cooperation agreement covering a wide range of energy cooperation between the two countries, such as the supply of Gazprom natural gas from the Russian Federation to China. In March 2006, a "Natural Gas Supply Protocol from Russia to China" was signed between the CNPC and Gazprom. This document contains the main agreements on time, volume, gas supply routes and the basis of the pricing formula (Gazprom, 2020).

In early 2005, there was little incentive to direct the Russian Federation's energy economy to China. The Russian Federation had a strong position in the European energy market, and China had found cheaper energy options such as Central Eurasia and had long relied on natural gas imports from Turkmenistan. By 2005, China imported about 11 percent of its crude oil from the Russian Federation. Despite the high level of political cooperation between the Russian Federation and China, energy cooperation had not developed due to differences between producers and importers and

several other factors. Europe remained a more reliable trading partner in the field of energy. But the Crimean crisis in 2014 and the earlier financial crisis of 2008 provided the necessary economic and political impetus for the Russian energy federation to reorient towards China (Roseth, 2017, p. 26).

The 2008 financial crisis showed China's economic strength, and despite China's shrinking economy, China's GDP grew 9.4 percent in 2009, while the EU's gross domestic product fell 4.3 percent (The World Bank, 2021a). More importantly, China's energy demand has remained stable, with Chinese oil consumption rising by an average of 6.8 percent in 2007 and 2010. However, at the same time, energy demand in the European Union has declined.

Due to the vulnerability of the Russian Federation to fluctuations in the global economy and China's economic strength and persistent energy demand, the Russian Federation decided to reduce its heavy dependence on Western energy markets and revise its energy strategy by launching a new version annually. According to a document and part of the Russian Federation's Export Diversification Strategy to Asia, the Russian Federation's exports to European energy markets are steadily declining (Ministry of Energy of the Russian Federation, 2010).

In the wake of the 2008 financial crisis, Russian energy companies ran into financial difficulties and needed funding to finance short-term improvisations and maintain large-scale projects such as the ESPO pipeline. The China Development Bank lent \$15 billion to Rosneft for 180,000 barrels of oil per day and \$10 billion to Transneft for 120,000 barrels per day. Thus, China took advantage of the economic weakness of the Russian Federation and provided China with favorable oil prices and energy security in the long run (Downs, 2011, p. 43). Within five years, several deals

were signed, including Rosneft and CNPC, a 25-year, \$270 billion oil supply deal, and with the gradual increase in oil resources, the Russian Federation's share of China's imported fuel generally increased. In the natural gas sector, CNPC acquired 20% of Novatek's Yamal LNG project in 2013. China's policy of exploiting the post-crisis situation was successful, and China was a credible option for the Russian Federation as European demand for energy declined in spite of its being a necessity. Nevertheless, relations between the two countries were evolving in the energy sector, and in 2006 CNPC and Rosneft signed a joint venture called Vostok Energy LTD, whose main goals were to explore and obtain licenses to explore for mineral reserves. He was in the Russian Federation. Rosneft's share was 51% and CNPC's 49%, and the company planned to introduce new technologies to improve exploration efficiency (Rigzone, 2006). In 2007, Sinopec and Rosneft signed an agreement to explore and develop the Sakhalin-3 project in the Far East.

Since 2008, cooperation between the Russian Federation and China has grown significantly. Russia-China Energy Dialogue has been formed since the Russian Federation President's visit to China in 2008. During this meeting, the Deputy Prime Ministers of the two countries were appointed as representatives and responsible for energy talks between the two countries. The energy debates have taken the discussion of new energy issues to the next level. The main purpose of the Russia-China Energy Dialogue was to ensure interaction between the two countries' energy departments and companies in all areas of energy cooperation between the Russian Federation and China. In December 2012, the Ninth Energy Dialogue between China and the Russian Federation was held, at which important agreements were signed between the two countries (Zhiznin, 2011).



The financial crisis in 2008 had different effects on countries and severely damaged the economy of the Russian Federation, which relied on oil and gas prices, and in 2009 the GDP growth of the Russian Federation was negative (The World Bank, 2021b). Economic frustration has forced the Russian Federation to make concessions in its relations with China in the field of energy (Weitz, 2008).

In 2009, the Union of Emerging Economic Countries of Brazil, the Russian Federation, India and China (BRICS) was formed informally, and South Africa joined the union the following year. The goal of China and the Russian Federation was to reduce international economic institutions under Western influence. The year 2012 was marked by the election of Putin as President, during which the Crimean crisis in 2014 and the imposition of Western sanctions on the Russian Federation, especially in the field of economy and energy, severely damaged the Russian Federation's relations with the West. The sanctions affected the Russian Federation's energy policy with China, and Putin referred to the Russian Federation's Eastern strategy and the impact of its large market on the Russian Federation's progress at the 2014 International Economic Forum (Putin, 2014).

In 2013, China, led by new President Xi Jinping, launched the Belt and One Road initiative, which aims to build closer ties with Asian countries and improve regional relations. The countries of Africa, Central Asia, Southeast Asia, the Middle East and the Russian Federation are at the heart of the Economic Silk Road, and the countries along the one-lane and one-road routes and China complement each other in the energy sector. Although there are many problems in the process of energy cooperation with these countries, the parties are working to improve cooperation. Deepening energy

cooperation with these countries will both diversify energy and ensure China's energy security (Yu, 2016, p. 355).

World oil prices averaged \$104 a barrel when the United States and the European Union imposed sanctions on the Russian Federation in March 2014. The purpose of the sanctions was not to prevent the development and production of natural gas in the Russian Federation at the time of the sanctions, but to impose long-term sanctions. Western sanctions designed and implemented by the United States and the European Union have targeted the Russian Federation's long-term oil projects. Despite the sanctions, the Russian Federation continued to produce oil, and the Russian Federation's gas supply to Europe remained strong. In 2016, the Russian Federation's oil production growth was the highest in the last eleven years, and its gas exports to Europe reached the highest record in 2016 and 2017 (Coote, 2018).

After the Ukraine crisis in 2014 and the imposition of sanctions, the government of the Russian Federation was looking for a way to prevent damage to the country's economy. The West did not expect such a confrontation in the Russian Federation. Because the Achilles heel of the Russian Federation's economy was its utter dependence on Western markets for its energy, capital, and technology exports, the Russian Federation concluded that it needed a strong partner to withstand Western pressure, and China, which was developing economically, was a good choice (Gabuev, 2016, p. 22). With the Crimean crisis and subsequent sanctions, the Russian Federation used the needs of China's energy market to resolve to get closer and integrate with China's development policies to benefit from the geopolitical and economic privileges of this interaction (Gabuev & Zuenko, 2018, p. 22, 145). In the same month, the Russian Federation and China closed the longest-running

Siberian natural gas pipeline deal, despite several disputes over the price. The head of Gazprom declined to comment on the details of the deal, but China's payment seemed to be \$350 per 1,000 cubic meters, much lower than what European consumers paid. On this account, China benefited from the dispute between the Russian Federation and Europe (Weitz, 2014, p. 86).

The 2014 crisis and earlier 2008 crisis accelerated energy talks between China and the Russian Federation. Negotiations such as the Siberian Power Pipeline were finalized 10 years later, a month after the Ukraine crisis. Thus, after the 2014 crisis, the Russian Federation was forced to make concessions to China in the energy negotiations, and China took advantage of the current situation and the financial weaknesses of the Russian Federation. The evolution of the two countries' energy needs is not rooted in past crises but in the geo-economic changes of the world led by China (Popovic, 2020, p. 49).

The Russian Federation's energy axis orientation towards China was something that had started taking shape years ago and was not inevitable. Although both sides tended to build more energy relations, neither side was willing to forsake the economic benefits of the relationship. The Russian Federation has always wanted to sell its energy at a high price while China has sought to minimize its costs. What led to the Russian Federation's acceptance was the Russian Federation's economic weakness after the 2008 and 2014 crises. However, China was not an alternative to the European Union for the Russian Federation. According to the International Energy Agency, in the near future, the Russian Federation will be the main source of gas imports to Europe, and it is predicted that by 2040 the Russian Federation will meet about 33% of the EU needs (Zeniewski, 2019). The Russian Federation's gas relations with

China have also been very successful, but they are weak compared to the Russian Federation's gas relations with the European Union. Although the Russian Federation and China complement each other in terms of energy needs, their price and supply agreements have always been problematic, and the Russian Federation does not seek to transfer its dependence from the European Union to China.

In 2015, the Russian Federation and China signed a joint declaration on cooperation between the Eurasian Economic Union and the Silk Road Belt, and in 2018, a trade and economic agreement was signed between the Eurasian Economic Union and China (Ziguo, 2019, p. 84).

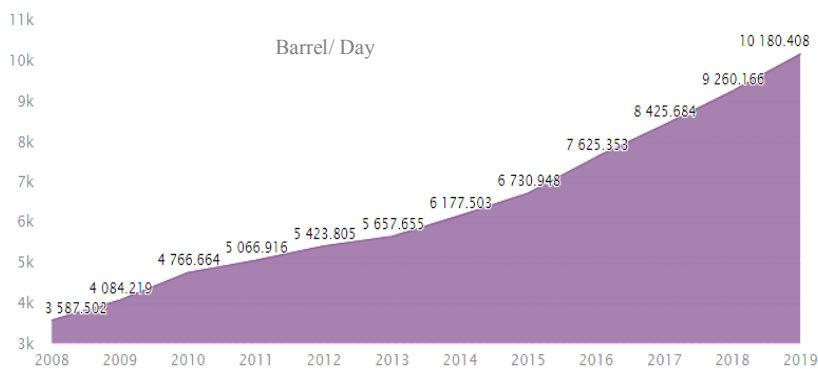
Although the increase in exports from raw materials to goods of higher quality and value is higher than the policies of the Russian Federation in the field of economy and energy, from 2000 to 2018, the export of intermediate goods and capital of the Russian Federation to China decreased. On the other hand, in 2018, the Russian Federation's largest share of exports to China was fuel, which increased from 6.68% in 2000 to 74% in 2018. In the same year, China's largest share of exports to the Russian Federation was machinery and electronic equipment, accounting for more than 38% of the transports (World Integrated Trade Solution, 2018). This economic dispute between the Russian Federation and China could affect economic relations and cooperation and negotiations in the energy sector, which is a serious concern for the Russian Federation.

China's foreign investment in the energy sector is the more than all other sectors in the Russian Federation, accounting for approximately 68% of the country's whole foreign investment between 2109 and 2020. China's foreign investment in the Russian Federation's energy sector was \$4.290 billion between 2006 and 2009 and \$18.890 billion between 2010 and 2019. On closer

inspection, 55% of energy investment is in natural gas and 10.2% in oil (Popovic, 2020), which is related to the Crimean post-crisis period. The increase in demand for natural gas is not only related to the relations between the Russian Federation and China, but also to the global phenomenon.

The size of China's foreign investment in the Russian Federation's energy sector from 2010 to 2019, showing that China's share of the oil and gas sector is the lowest. In general, China's shares in the oil and gas sectors of the Russian Federation are lower than in other energy sub-sectors, showing that the Russian Federation continues to protect these two sectors. To ensure the security of energy imports, the Chinese government has taken active steps to diversify its energy supply. Today, China imports energy resources from more than 30 countries around the world. Nevertheless, the main suppliers of oil are still the Middle East and Africa (Figure 1). In recent years, Angola has begun energy cooperation with China. The Chinese government is attempting to diversify its energy sources through foreign investment and long-term contracts in various regions.

**Figure 1:** China Crude Oil: Imports 2008-2019



Source: CEIC, 2020

As China's oil demand continues, oil imports have risen sharply over the past decade, reaching their highest level in 2019. In 2017, China became the largest buyer of crude oil in the world. In 2019, it imported an average of 10.1 million barrels per day of crude oil, which is an increase of almost 10% compared to 9.2 million barrels per day in 2018. A significant portion of crude oil is exported to China by Saudi Arabia, which was the largest source of imports to China in 2019 with a share of 16%.

In the gas sector, China is diversifying its LNG supply from other countries, such as the Middle East and Africa. In 2019, China was the largest importer of natural gas in the world with a volume of 4.6 billion cubic meters, which was 7% higher than the volume of gas imported in 2018. Turkmenistan accounts for having the largest share of natural gas exports to China. The share of the Russian Federation in the total gas resources imported to China in 2019 is only about 3%. Despite long and unproductive negotiations, development in the energy relations between the two countries has been evident and the Russian Federation is still one of the largest suppliers of energy to China (Popovic, 2020, p. 35).

#### **4. Russian Energy Policy and China**

The development of energy cooperation between the Russian Federation and China will have a major impact on global energy security. This impact on global energy security is not only due to the volume of energy reserves of the Russian Federation and China, but more importantly, China is one of the largest consumers of energy resources in the world and the Russian Federation is one of the largest exporters of energy resources (Zhiznin, 2012, p.18).

The complementary energy needs of the Russian Federation and

China have provided the ground for increasing energy security for both countries, and the two countries have many opportunities for cooperation. The globalization of the energy market has provided many opportunities for deepening energy cooperation between the Russian Federation and China. The instability of energy resources in the global market, along with the increase in regional tensions caused by economic and political disputes, can have a great impact on regional and global stability.

Over the past 20 years, China's energy sector has become one of the most important aspects of economic development. The energy factor is very important in China's economy and for the development of urbanization and industrialization of this country, and for the Russian Federation, energy is important as a tool for economic development. The strategic partnership between the Russian Federation and China in the field of energy is in line with China's foreign policy to diversify energy sources. Strengthening China's energy cooperation with the Russian Federation will not only help establish an energy security system in the Asia-Pacific region, but will also ensure global energy security. Energy cooperation between the Russian Federation and China is one of the priorities of the foreign energy policy of both countries and has greatly contributed to the positive development of relations between the Russian Federation and China in the early 21st century and especially the last decade (Chu, 2015, p. 50).

## **5. China's Energy Policy and Interests**

China's economy has been growing rapidly since the 1978 economic reforms. In the early stages of reform and opening up, China was able to meet its energy needs from domestic energy

sources. But after 1993, and especially in the 21st century, with the increase in domestic consumption, the oil exporter became an importer and put foreign policy on the agenda.

It is necessary to pay attention to foreign policy in order to ensure the country's energy security in relation to China's energy interests. The Department of Petroleum Resources is under the Ministry of Petroleum and the State Committee of the People's Republic of China. To date, the Chinese government has developed the twelfth five-year energy plan. In the last five-year energy plan, practical plans for promoting China's strategic energy policies as well as energy priorities, the implementation of which will increase China's energy security system, have been outlined (Izimov, 2014).

In China's domestic energy policy, based on the new strategy in the energy sector, the following can be mentioned for the development of China's public energy system:

- 1) Implement measures to save energy and increase fuel and energy efficiency.
- 2) Increasing development of the use of nuclear energy and renewable sources and secondary energy sources;
- 3) Promotion and development of clean energy;
- 4) Increase in the level of global services in the energy sector;
- 5) Accelerating the development and advancement of technologies related to the energy sector;
- 6) Development of reforms in energy issues;
- 7) Strengthening international cooperation in the field of energy (The State Council Information Office of the People's Republic of China, 2012).



Today, the Chinese government pays close attention to developing an effective energy strategy at home and abroad. Implementation of measures to optimize fuel and energy consumption, introducing new energy technologies in the field of electricity, increasing the share of natural gas and other alternative energy sources are all growing. It should be noted that the Chinese government has made great strides in these areas, but these measures are not enough to maintain the pace of China's economic development. Therefore, the Chinese government has to develop foreign energy strategies in addition to domestic energy policies. Two principles of China's foreign energy strategy include:

- 1) Avoiding tensions between China and the energy exporting country and China's relations with these countries should only be based on mutual benefit terms.
- 2) Systematic means that policies and operations are needed to diversify the supply and transportation of energy resources. In this regard, the simultaneous development of maritime, continental and energy transportation pipelines from different countries and regions should be done. These principles are based on the concept of China's foreign economy, i.e., "exit", which requires active regional energy policy (Izimov, 2014).

The Chinese government has sought alternative ways to transfer energy resources to China to ensure energy security. Based on the geopolitical situation, China pays more attention to the Eurasian region to implement its energy policy, where the countries of Central Asia (Kazakhstan) and the Russian Federation are important countries for energy cooperation (Ebel, 2009, p. 31).

In particular, China's inability to adequately supply its energy needs is the main reason for advancing China's strategic energy

policy in energy cooperation with the Russian Federation. China has grown from an oil exporter to an importer since 1993. The Russian Federation and the countries of Central Asia play an important role in ensuring China's energy security (Christina, 2012, p. 168; Vologdina, 2012, p. 168)

China has given the Russian Federation an important place in its new energy policy. In the 21<sup>st</sup> century, one of the most important aspects of China's foreign policy in relation to the Russian Federation is energy security for China. The Chinese government has also sought to formulate a balanced strategic energy policy. The essence of China's energy policy is not to depend on a political or geopolitical force.

## **6. Russia's Energy Policy and Interests**

The goals of the Russian Federation's strategic foreign energy policy include the following:

1. Strengthening the position of the Russian Federation in foreign energy markets based on the high competitiveness of the Russian Federation
2. Diversifying export products in the field of energy and geographical sources of energy supply, improving the quality of export goods and services.
3. The globalization of energy problems has led to the politicization of this issue and the importance of the Russian Federation's fuel and energy system in global energy, which has led to a greater impact of energy on the foreign energy policy of the Russian Federation.

The Eastern Axis has become more important in the Russian Federation's energy policy since the 2008 crisis and the events in Ukraine in 2014. The share of Asian and Pacific countries in energy exports has increased significantly. China is undoubtedly one of the Russian Federation's main partners in the Asia-Pacific region in the energy sector. China, on the other hand, needs to increase its share of energy imports from various regions for its rapid economic growth. In this regard, the Russian Federation is also China's border neighbor and strategic partner.

It is important to note that previously the Russian Federation and China were also doomed to cooperate due to their geographical location. By implementing major energy projects in cooperation with China in the Far East, Western Siberia and Eastern Siberia, the Russian Federation can attract significant foreign investment, which not only expands the Russian Federation's fuel and energy complex, but also paves the way for improving social infrastructure and transportation (Zhiznin, 2012, p. 18).

The energy strategy of the Russian Federation can be described as a combination of the energy strategy of the Russian Federation until 2030, which was formulated in 2009, and the doctrine of energy security. The energy strategy of the Russian Federation was implemented year after the financial crisis of 2008 when the traditional energy market of the Russian Federation was losing ground. In response to this crisis, the Russian Federation emphasized the policy of diversification and increasing the share of Eastern energy markets (Ministry of Energy of the Russian Federation, 2010). Also, according to this strategy, due to the growing use of hydrocarbon reserves, the development of oil resources in the Arctic Plateau, Eastern Siberia, and the Far East

has become a necessity. A variety of energy export commodities such as higher value-added natural gas are also a priority.

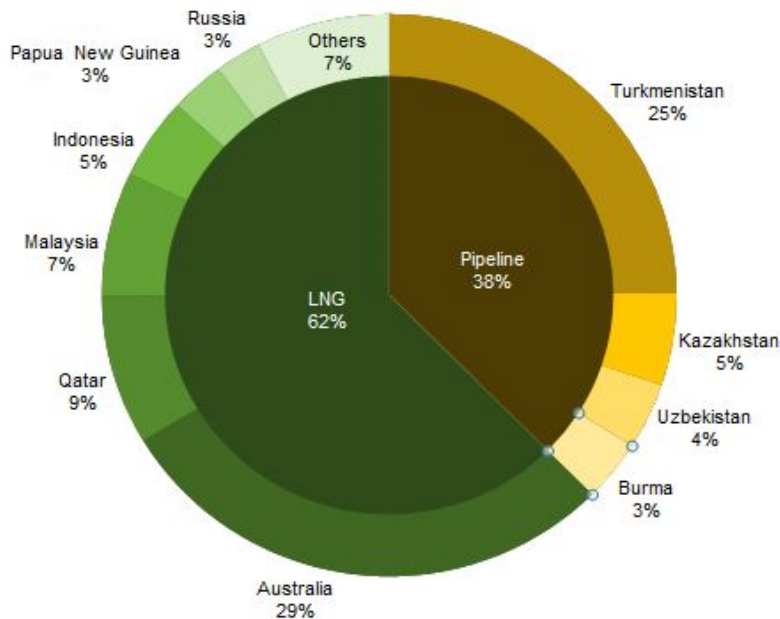
On the other hand, the doctrine of energy security deals with economic developments and the transfer of the global center of economic growth to Asia and Oceania. It also points to the process of decarbonization and growth in natural gas demand and the use of financial mechanisms against foreign energy companies by the Russian Federation and Western sanctions against the energy sectors of the Russian Federation and the incompatibility of the technologies used by Russian energy companies with the modern world needs (Ministry of Energy of the Russian Federation, 2019).

The trend towards decarbonization and the rise in natural gas demand is a trend that will affect energy markets in the long run. The trend has already had a significant impact on the natural gas trade between China and the Russian Federation. Sanctions against the Russian Federation have hampered important financial and technological resources in the energy sector. The Russian Federation needs technology to exploit the Arctic and eastern reserves, and technical projects in the North have been hampered since the embargo. Several Western companies, such as ExxonMobil and Royal Dutch Shell have been forced to suspend their projects in the Russian Federation (Astrasheuskaya, 2019). As a result, the Russian Federation has been forced to rely on non-traditional resources from the Russian Federation in the energy sector, such as China.

In connection with the extensive economic turnover to Asia and the Pacific, the Russian Federation holds a special place for China in the Russian Federation's energy strategy. This position is both

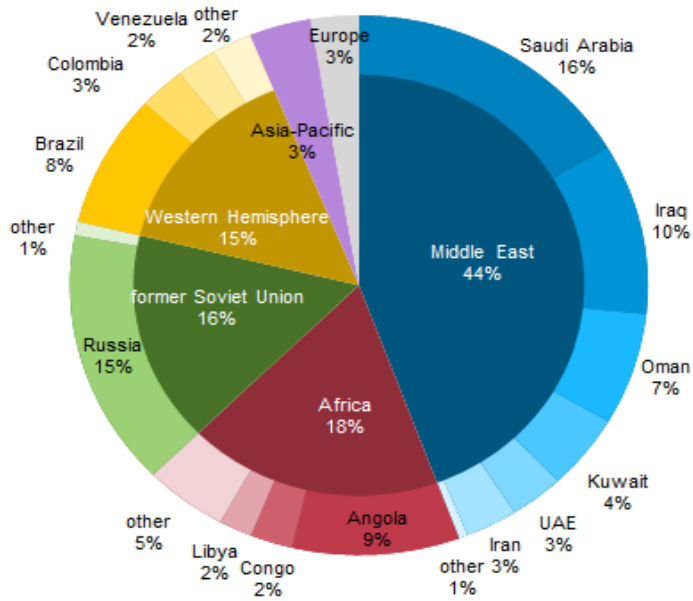
for China's oil and gas demand and for giving China an opportunity to reduce the financial and economic pressures of sanctions. China's involvement in upstream projects is a new issue. Before the sanctions, the Russian Federation tended to involve Western companies because of their technical knowledge, while China was more inclined to invest in the Far East (Spivak & Foy, 2019). The Russian Federation's sanctions provided a good opportunity for China to get involved in the Russian Federation's major energy projects.

**Figure 2:** Natural Gas Supply Sources to China, 2019



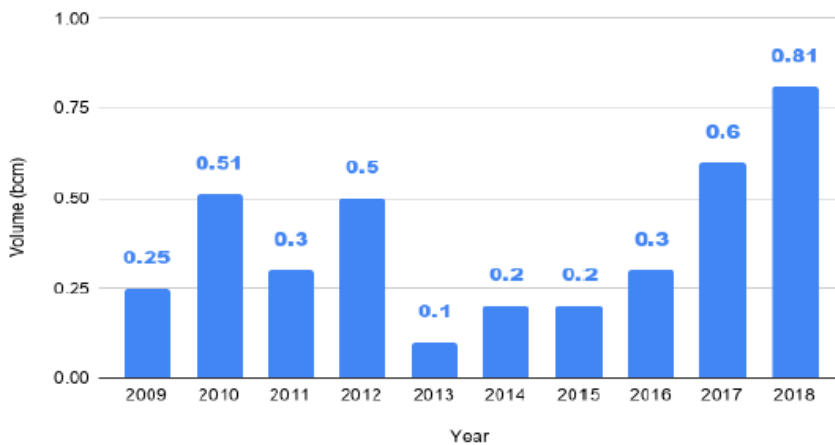
**Source:** U.S Energy Information Administration , 2020, p. 10

**Figure 3: China's Main Crude Oil Suppliers, 2019**



Source: U.S Energy Information Administration, 2020, p. 6

**Figure 4: Exports of Natural Gas of the Russian Federation to China, 2009-2018**



Source: Popovic, 2020

## 7. Prospects of Energy Cooperation between China and Russia

Energy demand in the Asia-Pacific region as well as the competition between the Russian Federation and China both exert a negative impact on energy cooperation between the Russian Federation and China. In the Asia-Pacific region, China seeks to maximize its national interests and implement a strategy to diversify the energy needs of the country. The Russian Federation pursues energy cooperation with countries in the Asia-Pacific region in its energy policy.

Weak energy infrastructure in the Eastern Siberian region of the Russian Federation limits energy exports from this region. The technology of the Russian Federation has long been concentrated in Western Siberia. The economy of the eastern regions of the Russian Federation is relatively underdeveloped and energy infrastructure is not financially supported. The initial investment costs of developing energy projects in the region are very high, and large state-owned energy companies such as China are reluctant to invest in the region (Xin, 2017, p. 76).

The Russians strategically think that China is initially looking to buy crude oil and gas, and that implementing processes that will bring added value, create new jobs, and develop advanced industry and technology in the Russian Federation are not a priority for China. In the meantime, the Russian Federation will only be a supplier of low value-added raw materials, which will result in the Federation's losing more of its energy resources. In addition, the widespread export of oil and gas hinders the modernization and development of the production industry in the Russian Federation. Such a uniform and rudimentary pattern in the cooperation between the two countries will hinder the revival of the Russian Federation's economy and will ultimately lead to the backwardness

of the country's technologies. In line with the long-term goals of the "Energy Strategy of Russia for the Period up to 2030", the Russian Federation seeks an independent policy in the international energy market in which it does not act only as an exporter of raw materials (Government of the Russian Federation, 2009).

In the process of energy cooperation between the two countries, there is no effective mechanism for coordinating issues. There is always disagreement between the two countries about energy prices. Given that energy trade between the Russian Federation and China is mainly through pipelines and land transportation, transmission costs might escalate, and if the Russian Federation cannot get more concessions on the price of oil and gas exports, this will have a negative impact on the investment of Chinese companies in the Russian Federation.

## 8. Conclusion

The relations between Russia and China are understandable due to the producer-consumer relationship and the border between the two countries, where there is no need for dangerous transportation and transmission pipelines from several countries. A long-term strategic energy relationship between the two countries seems inevitable. However, the energy relations between the two countries are more complex than the relations between producers and consumers, and issues such as pricing and the provisions of agreements cause problems in the energy cooperation between the two countries. Thus, their relations are not fully developed despite being neighbors.

China's economy has been growing rapidly since the 1978 economic reforms. In the early stages of reform and opening up,



China was able to meet its energy needs by using domestic energy sources. After 1993, and especially in the 21st century, with the increase in domestic consumption, the country became an importer of oil from the exporting country and put the policy of supplying the required energy resources from abroad on the agenda. The issue of energy security, energy saving, environmental protection, and increasing the use of natural gas became important in China's energy policy. In the future, the use of renewable energy will become a development priority in China.

The Russian Federation, which is interested in economic ties with Asia, Oceania and China, is also dependent on the consumer markets of Western countries. In parallel with political relations, economic relations between the Russian Federation and China were increasing after the collapse of the Soviet Union. However, the Russian Federation has a rising concern regarding becoming a supplier of raw materials to China. The Russian Federation's market for Chinese trade accounts for a small share of China's exports and imports. Although the Russian Federation and China have complementary energy needs as well as strategic and international goals that have affected their other relations, including relations in the energy sector, their conflicting financial interests limit the energy relations between the two countries. The Russian Federation and China are on both sides of the energy market. China always plans to buy energy from the Russian Federation at a low price, and the Russian Federation wants to sell it at a high price. That is why the energy talks between the Russian Federation and China are long and unproductive. Crises such as the 2008 financial crisis and the Crimean crisis have somewhat accelerated energy negotiations. The Russian Federation's economic weakness prompted China to make concessions in the energy talks. The Russian Federation's economic weakness and China's success in

overcoming the 2008 financial crisis prompted China to take advantage of this space in its relations with Russia in the field of energy. This situation was the result of the economic weakness and tension of the Russian Federation with its traditional partner in the energy market. It was not the result of cooperation and agreement with China, and ultimately led to China taking advantage of this situation.

Because the Russian Federation's energy sector is an integral part of the government, the transfer of more shares to China in oil and gas projects and cooperation with China in upstream projects means less government control over the energy sector and less foreign policy instruments of the Russian Federation. Therefore, the Russian Federation seeks the participation of other countries in the oil and gas sector, especially countries that hold political dominance. The new energy strategy of the Russian Federation also shows that the Russian Federation is of great significance to China. However, despite the increase in Chinese investment in the energy sector, the Russian Federation does not want China to have more control over its oil and gas sector, since it is closely related to the economic and national security issues of the country. This reluctance of the Russian Federation is due to the connection between the Russian Federation's oil and gas sector with the macro-economy and the magnitude of the Russian Federation's material power. The share of the Russian Federation's oil and gas revenues constitutes a major part of the Government of the Russian Federation's earnings and indicates that the transfer of control over the oil and gas sector will have greater economic consequences.

Despite the limitations of the Russian-Chinese cooperation in the field of energy, the relations between the two countries in this area are entering a new level. The two countries have overcome

many differences and problems and have reached a mutual understanding in the oil and gas sector.

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