

# Belt and Road Initiative (BRI) impact on energy cooperation between China and Russia

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## ABSTRACT

**Research Purpose:** The purpose of this article is to highlight impact of Belt and Road Initiative (BRI) on the cooperation between China and Russia in the energy sector.

**Research Method:** The research first explains the BRI initiative, then analyzes the rationale for inter-dependence in the Oil and Gas trade and subsequently highlights the areas of cooperation between China and Russia in the energy sector.

**Research Content:** The study delves into the potential BRI areas of cooperation between China and Russia. Moreover, it provides a reasoning for oil & gas trade. The literature review makes a case for energy sector cooperation and the study also lays down a rationale for such a cooperation.

**Research Conclusion:** Energy security and interdependence between China and Russia will get a fresh impetus due to the BRI project. Oil and gas trade is logical given the demand supply balance between these two countries. Energy cooperation is likely to get strengthened due to the BRI infrastructure investments.

**Research Significance:** The study analyzes the compulsions of the cooperation between China and Russia and highlights areas of the cooperation from strategic perspectives.

**Keywords:** BRI, OBOR, China, Russia, Energy, Oil and Gas.

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## INTRODUCTION

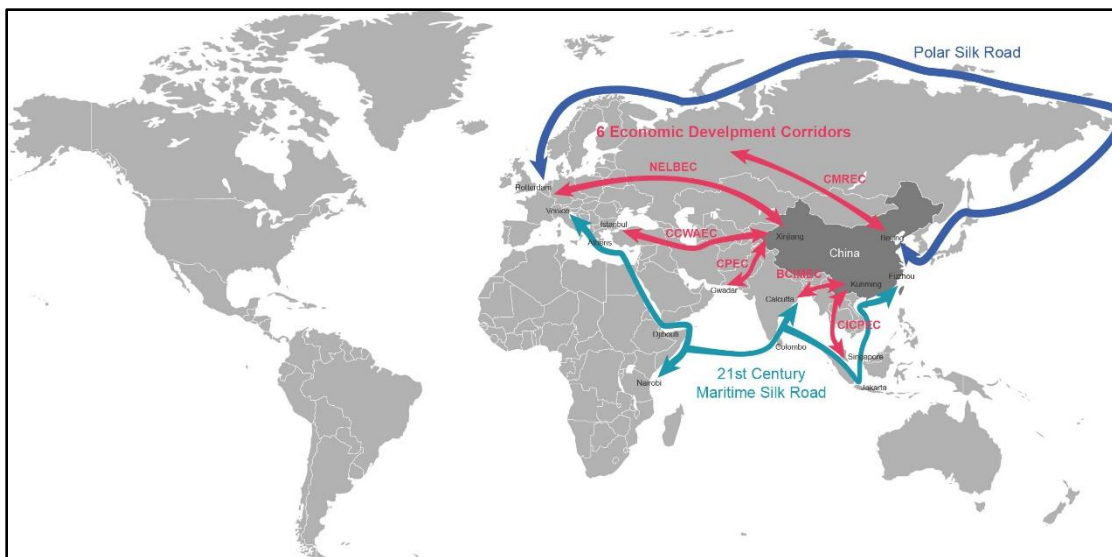
### *Belt and Road Initiative*

Belt and Road Initiative (BRI), unveiled in 2013, is a China led inter-continental strategic partnership and infrastructure program involving more than 70 countries. BRI represents Chinese international ambition, which is aimed at stimulating development of economies in Europe, Africa, and Asia, which represents 64% of world's total population and roughly 30% of world's GDP (Huang, 2016).

The project has clearly become centerpiece of Chinese foreign and economic policy (Swaine, 2015; Rolland, 2017; Clarke, 2017). BRI model is mutually beneficial and is based on political, economic, and cultural cooperation between China and several other countries along the Silk Road (Liu and Dunford, 2016). BRI holds the potential to achieve most defining political and economic projects of the first half of 21<sup>st</sup> century (Rolland, 2017). BRI is aimed at China's sustainable development as well as progress for other developing partner countries (Johnston, 2018).

BRI comprises of two major projects:

1) The Silk Road Economic Belt which is land based and has 6 trade corridors; and, 2) The 21st Century Maritime Silk Road



**Figure 1: Belt and Road Initiative**  
(Source: Belt and Road Initiative, 2021)

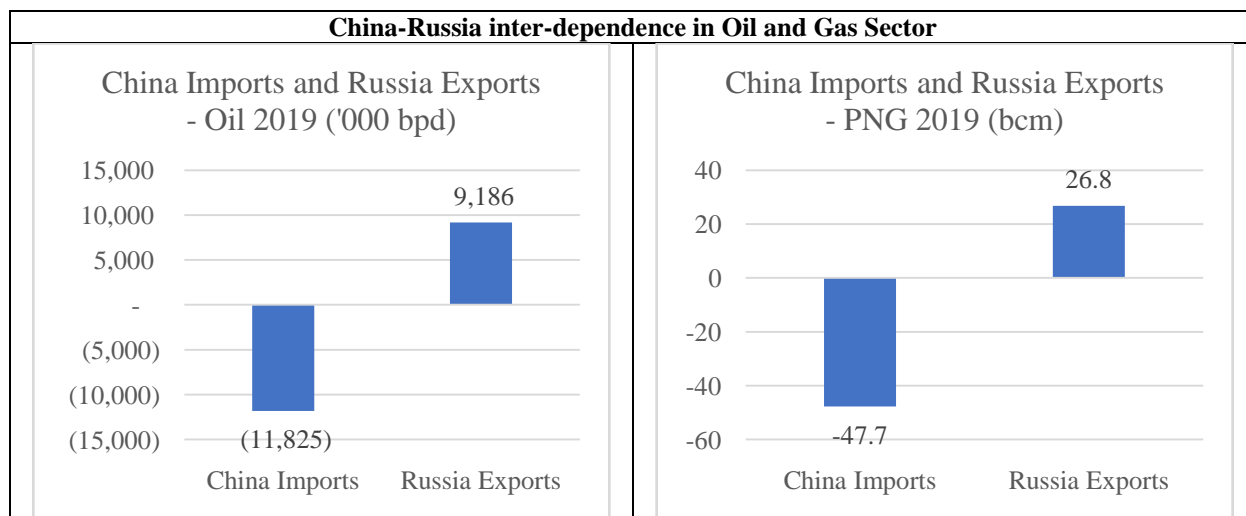
1)The Silk Road Economic Belt: The six corridors are (Oecd.org, 2021) – 1)New Eurasia Land Bridge, 2) China, Mongolia, Russia Economic Corridor, 3) China, Central Asia, West Asia Economic Corridor, 4) China Indochina Peninsula Economic Corridor, 5) China, Pakistan Economic Corridor, and, 6) China, Bangladesh, India, Myanmar Economic Corridor

2)The 21st Century Maritime Silk Road: This connects China to the Arabian Peninsula,Southeast Asia, Europe, Strait of Malacca, Arabian Sea,the South China Sea, the Red Sea, Persian Gulf and Indian Ocean, Gulf of Bengal.

The specific objectives of the BRI are (OECD.org, 2021): 1) To increase trade and investment (Du and Zhang, 2018), 2) Create free trade zones, 3) enhance financial co-operation to fund infrastructure (Asia needs \$26 tn to 2030 as per ADB), 4) to gain access to natural resources, 5) to strengthen transport infrastructure (lower trade costs – Soyres et al., 2019) and 6) Deepen cultural exchanges.

#### *China-Russia inter-dependence in energy sector*

To understand the China-Russia interdependence in the energy sector we focus on two segments – O&G. China represents one of the largest consumers in these two areas, whereas Russia is a major exporter of energy. The below charts show a total of Chinese imports and total of Russian exports. Clearly, both the countries need each other to bridge supply and demand of these two commodities.



**Figure 2: China-Russia inter-dependence in Oil and Gas Sector**  
(Source: BP.com, 2021)

With 1.4 bn people, China is number one in terms of population in the world and is one of the fastest growing economy which has led it to be the largest consumer of energy (Eia.gov, 2021).

1) Oil: Russia has 15% share of China's total imports and is the second largest oil supplier behind Saudi Arabia. Crude exports from Russia began to increase as a result of new production facilities from the East Siberian fields and, building of transmission related infrastructure in these two countries (Eia.gov, 2021).

2) Gas: Russia has recently started supplying natural gas through pipelines. China started importing Russian natural gas in December 2019 through "Power of Siberia" pipeline. Both the countries signed the deal in 2014 resulting China importing around 1.3 Tcf/yr from Gazprom's Eastern Siberian gas fields over a 30-year long period. Russia expects to boost export over the next few years and deliver 530 mcf by the end of 2022. Moreover, China plans to develop pipeline infrastructure, which will help delivering gas to Beijing or other major demand centers (Eia.gov, 2021).

## LITERATURE REVIEW

The Literature review section is focused on two themes: First, the impact of BRI and second, the resultant Sino-Russian cooperation.

### Impact of BRI:

Kaho (2018) has talked about the EU experience of cooperation, while Hao et al. (2020), looks at how the BRI affects the geopolitics of infrastructure development. Tillman et al. (2018) and Alexeeva and Lasserre (2018) has discussed the prospects of Polar Silk Road. Below are some of the abstracts.

Kaho (2018), reviews cooperation of energy inside the BRI based on EU's experience of inter-European Energy Networks in catering to different policy related challenges, such as competition, environmental change and the supply security via its energy network. As a framework based on solid political & economic measurements, the BRI plans to advance interconnectivity & development of infrastructure, trade, policy, funding and culture among Eurasian nations.

The paper by Hao et al. (2020), looks at how the BRI affects the geopolitics of infrastructure development and energy. With a huge change in the demand and supply of energy and its related infrastructure, worldwide energy order transformation is really taking shape. There are rapidly growing economies, for example, India, China, Japan, and Russia which are without a doubt assuming an important role in the international stage. A few areas like Eastern Mediterranean, the Arctic, Central Asia, & the South China Sea are offering oil and gas reserves which is getting attention of global players in the cooperation for energy. The present circumstance is profoundly affecting the transformation of energy order. During this transformation, BRI should assume a significant part.

Tillman et al. (2018) and Alexeeva and Lasserre (2018) have talked about the Polar Silk Road or the Arctic area of China-Russia cooperation. During the previous decade China-Russia cooperation in the Arctic area has arisen as one of the significant subjects of the Sino-Russian negotiations on the best way to extend their cooperation and to carry it to another level. China has significant economic interests in the region. As for Russia, the Arctic is a future key asset base that would supplant the old exhausting fields and guarantee its status as a significant overall energy provider. During 2017, China has expanded its "Belt and Road Initiative" (BRI) to the Arctic accordingly raising the China-Russia cooperation to a higher significant level.

### Sino-Russian Cooperation:

Zhao et al. (2019), have laid the case for energy trade by highlighting Russia as a major energy resource center. Bennet (2016) and Freeman (2017) have argued that the sanctions on Russia have led to increased cooperation between China and Russia. Nezhnikova et al. (2018), Yang et al. (2015) and An et al. (2020) have opined regarding the oil and gas trade between China and Russia. Further, Trubnikov and Richter (2020) and Meynkhard (2020), talk about the modalities of the cooperation such as LNG. Below are some of the abstracts.

Zhao et al., (2019) have posited that the BRI represents the center of China's external policy & subsequent foreign coordination regarding energy is a significant part of the BRI. Security of energy is firmly identified with the inter-dependent relationships among nations. According to them, Energy resources represent two main centers; one Russia and the other West Asia & the Middle East.

Bennet (2016) opines that since the investments are by and large prohibited by the EU and the US sanctions, Russia becomes a logical region for BRI projects and becomes an important part of China's BRI. According to Freeman (2017), despite their historical rivalry, energy relationships have helped shaping the trajectory of Sino-Russian engagements in Central Asia.

Yilmaz and Changming (2020), have argued that Sino-Russia vital engagement stands at the focal point of the BRI projects in Eurasia. Monetarily, the engagement means to boost regional development by prodding connectivity, infrastructure, and, innovation. Strategically, it looks to make a more institutionalized and amicable territorial presence through an economic way to deal with security and to address challenges such as terrorism.

An et al. (2020) have posited that the topic of how much the emphasis on state-run projects among China and Russia depends on the Russia's desire to move away from an economy which is reliant on natural resources such as oil and gas. Through the investigation of existing abilities of the Russian organizations to tap opportunities for technologically innovative projects which can be utilized over the long haul, the research focuses on trends in energy markets of China and Russia.

According to Meynkhard (2020), the needs of Russia's energy policy based on Russian energy methodology until 2035 are spelled out. The research article noticed that the fundamental needs are strengthening the participation of CDB (China Development Bank) in energy projects, building LNG terminals and Pipelines with regards to energy participation, expanding the trust in Sino-Russian energy relations. The fundamental limiting factor isn't the restricted resources as fuel cost of production and the chance of expanding the quantum of energy exports to China, just as low degrees of energy efficiency and saving. In the present circumstance, the chance of reformist improvement of relations among Russia and China can be accomplished through fundamental alterations in the business.

Nezhnikova et al. (2018), have argued that the cooperation in the energy industry is a significant segment of the Sino-Russian strategic partnership. The motivation behind this study is to examine the present status and possibilities for the strengthening of cooperation in the energy sector of China and Russia. The aftereffects of studying the indicators that describe the strength of the relationship between the two nations in the energy region permit the author to arrive at the following conclusions. With regards to the complicating regional situation, Russia as the biggest exporter of natural resources and a member in worldwide energy processes needs to create effective components for broadening export of natural resources and to zero in on extending energy cooperation. China is the biggest merchant of natural resources in the Asia-Pacific area and globally. It can turn into a reliable partner for Russia to execute aspiring energy related projects. There is a lot of scope for participation in projects on building up the Arctic shelves, framework development and expansion in the limit of the Eastern Siberia Pacific Ocean export route (ESPO), the dispatch of a new pipeline Power of Siberia.

Yang et al. (2015) have opined that, as of now, China is confronting an increasingly challenging global energy situation with its rapid economic growth and expanding urbanization. Russia and Central Asia with rich O&G resources are significant strategic regions of China to do future worldwide energy cooperation to expand import oil gas and improve energy transport safety. Particularly, the cooperation in the field of energy is the feature of China's proposed Silk Road economic belt which stirs worldwide consideration, and the cooperation among Russia, China and Central Asia may change the world O&G trade pattern.

The paper by Trubnikov and Richter (2020), proposed the significance of a social synergy approach in Sino-Russian energy cooperation. Traditional way of energy transportation exercises are seen as a component of the concerns towards environment in the two nations. Liquified natural gas (LNG) transportation may be a superior arrangement as another option to different choices. LNG market is getting increasingly developed and Russia is seriously looking at this strategy.

**Research Gap:** There is ample research on BRI and the Sino-Russian energy cooperation. However, the present research focusses on individual themes rather than a comprehensive analysis. Our research endeavors to fill this gap. Moreover, our study lays down the strategic rationale for such a cooperation.

### Discussion and Analysis

We highlight the following themes which focus on China-Russia energy cooperation based on BRI.

1) China and Russia are political allies and the sanctions against Russia has only strengthened the relationship. Russia needs a strong partner like China which can invest in development of energy projects in the BRI scheme of things.

2) China and Russia have both strategic interest in dealing with their own currencies a move away from the dollar trade. Economically, China, with its economy eight times size of Russia is much more important to Russia than vice versa. However, we see inter-dependence as a key theme wrt energy trade.

3) Two of the six BRI land corridors are connected to Russia. Moreover, the Polar Silk Road brings China and Russia closer. These connections promise long term impact on the energy trade between the countries. China has been Russia's largest trading partner. Their bilateral trade has risen to \$107 billion in 2018, with the governments planning to boost it further to \$200 billion in 2024 (Stent, 2020).

4) China & Russia are natural partners in the O&G trade. China represents one of the largest consumers and importers while Russia is one of the largest exporters. Moreover, Russia would like to diversify its exports away from Europe. Russia started delivering oil to China in 2011 part of "loans for oil" project in which China provided \$25 bn loan for oil deliveries till 2030. Currently, Russia is second largest suppliers only behind Saudi Arabia. Despite their earlier differences, China and Russia signed \$400 bn gas pipeline deal in 2014 called Power of Siberia. The pipeline began its operation in 2019.

5) Another area where the China Russia cooperation has emerged is the Arctic. For Russia, China represents provider of the capital, and markets needed to develop its natural resources. And as for China, Russia facilitates its economic goals in the region. China has led down a vision for the Polar Silk Road as part of the BRI. Due to 2014 sanctions on Russia, China stepped up and invested \$12 bn in the Yamal LNG project. Russia started exporting gas in 2018 through this project.

### CONCLUSION

BRI is the centerpiece of Chinese political and economic strategy. The project attempts to connect more than 70 countries through infrastructure investments like never before. The key motivations behind this massive project are – connectivity, openness and innovation, sustainable development objectives, energy and food security objectives and more balanced regional development.

Clearly, energy security and interdependence between China and Russia will get a fresh impetus due to the BRI project. Oil and gas trade is logical given the demand supply balance between these two countries. Energy cooperation is likely to get strengthened due to the BRI infrastructure investments. The political cooperation between the two countries will be underpinned by the energy sector inter-dependence.

**Prospects for future work:** Further research can focus on the specifics of the oil & gas trade, especially natural gas, where there is enough potential. Also, a study into the progress of BRI infrastructure projects will tell the ground reality situation.

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