



THE IMPACT OF ENERGY SECTOR OF KAZAKHSTAN WITH THE GLOBAL AND REGIONAL POWERS

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Abstract: Today, energy security has become an enormous part of national security policies. Energy security policies of states throughout the world have different characteristics in terms of importing and exporting countries. Therefore, states have started to design and implement energy security policies within the scope of their geographical, political, and economic conditions. Kazakhstan is a new sovereign country trying to lead a new policy that makes it an equal partner to other countries of the global community. Thanks to its wealth of hydrocarbon resources in the Caspian region Kazakhstan attracts foreign countries with the intention of purchasing resources. The country's energy policy is based on to what extent Caspian's resources impacts on the foreign policy of Kazakhstan. The landlocked geography and underdeveloped infrastructure bring more active policies based on its energy potential. In this study, I try to show the development of the Kazakh energy policy in view of the country's relations with the USA, Russia, China, the European Union and Turkey via their projects. Having a very complicated geopolitical environment and a young economy, Kazakhstan decided back in the 1990's to lead a multi-vector and well-balanced foreign policy. Also, this study shows the possibilities of future development in the energy sector of the country.

Keywords: Energy Policy, Kazakhstan, Multi-vector, Hydrocarbon Resources, the Soviet Union.

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KAZAKİSTAN ENERJİ SEKTÖRÜ ÜZERİNDEKİ KÜRESEL VE BÖLGESEL GÜÇLERİN ETKİSİ

Öz: Günümüzde enerji güvenliği, ulusal güvenlik politikalarının önemli bir parçası haline gelmektedir. Dünya genelinde ülkelerin enerji güvenliği, petrol ve doğalgaz kaynaklarını ithal ve ihraç etmek açısından farklı özelliklere sahiptir. Bu nedenle çoğu ülkeler coğrafi, siyasi ve ekonomik şartlarıyla kendi enerji güvenliği politikalarını uygulamaya çalışmaktadır. Bu bağlamda Kazakistan da, küresel topluluğa ait ve diğer ülkelerin karşılığında eşit haklara sahip olan, kendi politikasını yürütmeye çalışan yeni bir egemen ülkedir. Hazar Havzası'nda bulunan zengin hidrokarbon kaynaklarının bir kısmına sahip olan Kazakistan, yabancı yatırımcıların dikkatini çekmektedir. Fakat ülke coğrafyası karada bulunup okyanustan uzak kalması, ayrıca boru hatlarının altyapısı çürümüş halde olması, Kazakistan'ın enerji potansiyelini daha da artırır ve aktif bir dış politika yürütmesi gerekliliğini gösterir. Bu ve buna benzer meselelerin üstünde durarak çalışmamızda Kazakistan'ın ABD, Rusya, Çin, Avrupa Birliği ve Türkiye gibi ülkelerle kurduğu enerji ilişkilerini ortak projeler vasıtasıyla gösterilmektedir.

Anahtar Kelimeler: Enerji Politikası, Kazakistan, Çok Vektörlü, Hidrokarbon Kaynakları, Sovyetler Birliği.

INTRODUCTION

The energy factor is one of the most important economical sector in the modern world and therefore the hydrocarbon resources of the Caspian Sea are very attractive for a number of countries. The main reason for the desire to be a shareholder in this region is to weaken dependency on energy resources in the Middle East and to find some oil production ways. Today, the power of weapons is becoming less important and world actors compete with each other in different ways from time to time. Therefore the main obligation of any country is to protect its energy resources. Nowadays such great powerful actors as Russia, the USA, China, EU countries are still very much dependent on oil. The majority of OPEC countries became important figures in global trade. Their words and decisions influence the conditions of international relations.¹

Kazakhstan had been under Soviet rule for 70 years, but the collapse of the Soviet Union ended with the independence of the country which was declared on December 16, 1991. But Kazakhstan faced an economic crisis. To overcome this problem, Kazakhstan had to follow an economic development policy based on promoting foreign investments in the sector of oil and natural gas resources. From the beginning, Kazakhstan's leadership started using energy resources as key advantage for its own

¹ Nurzhan Aitmakhanov, "The Oil Factor in the Foreign Policy of the Republic of Kazakhstan", *Taiwan International Studies Quarterly*, 2/2 (2006), 64-79.



‘multi-vector’ policy in the international arena. Thanks to rich natural resources within the borders and especially in the Caspian Sea, Kazakhstan attracted the attention of powerful and energy-consuming countries. In the post-Soviet period, it was obvious that Kazakhstan would lead its ‘multi-vector’ policy based on its 30 billion barrels worth of hydrocarbon reserves, namely crude oil, which takes the eleventh place in the world.

The energy sector is the backbone of the Kazakh economy which provides a large part of budget revenues and hard currency. The Energy Factor in the Foreign Policy of Kazakhstan takes 65 earnings for the country’s budget. At this point, it is reasonable to bring to the table the given topic which is one of the main issues of our days. Since Kazakhstan possesses substantial hydrocarbon resources, global powers such as the USA, EU countries, Russia, and China have shown great interest. In this study, the process and partnerships of the country are discussed. Additionally, the main problem in the country’s foreign policy, which is the status of the Caspian Sea, will be mentioned. The developments in the energy field between Kazakhstan and other countries are described through their implemented pipeline projects.

The purpose of the study is to research and investigate the connection between hydrocarbon resources and multi-vector foreign policy in the timeframe of 1991 to 2020. After 30 years of independence and controlling its foreign policy, it needs to look back and open up developments. As a young government in the international arena with valuable hydrocarbon resources and difficulties relatively to foreign policy, Kazakhstan has been in a position where energy assets might be used for dealing with foreign policy challenges. Here comes up the question: *How is Kazakhstan using oil and natural gas resources in its own multi-vector foreign policy?*

1. THE ENERGY POLICY OF KAZAKHSTAN

After the fall of the Soviet Union, the country’s economy broke up that affected the energy sector negatively. By the 1990s, the lack of a country’s energy industry following the economic collapse and the rising of the Caspian Sea led to the energy crisis. Therefore the production level of energy resources decreased. In the first years, the economy suffered quite a lot, declining significantly until 1995. It recovered gradually from 1995 to 1997, but it was hit again in 1998 in response to the Russian economic crisis. However, the situation in the country significantly changed in the early time of the new era when Kazakhstan’s economy had grown up to an average 8% rate annually in 10 years.²

Throughout these years, President Nazarbayev declared a “multi-vector” policy to

² Pier P. Raimondi, (2019). “Central Asia Oil and Gas Industry – The External Powers’ Energy Interests in Kazakhstan, Turkmenistan and Uzbekistan”, *SSRN* (Eriřim 15 Temmuz 2020)

attract foreign investments and promote the national economy, as he understood that the only good way to boost the economy was to provide stability to the whole system. Therefore, Nazarbayev focused on exploiting hydrocarbon reserves present in the subsoil to attract foreign investors and require technologies, especially from Western countries.

On December 27, 1994, the Parliament adopted the Foreign Investment Constitution that stated that the right investment methods should provide a stable and secure partnership among investors. As a result of the government's strategy, by 1995, in the goal of improving the oil and natural gas sectors, the decline in the energy sector was stopped and improvement of production was observed, lost economic relations with the world were rebuilt, the interest of foreign investors was increased rapidly. The privatization of state properties was of great importance in the realization of the Oil Industry Development program. In the post-independence period, Kazakhstan privatized most of the country's energy stocks.

There are around 15 fields in Kazakhstan such as Tengiz, Kashagan, Karachaganak, Uzen, Zhetybai, Zhanazhol, Kalamkas, Kenkiyak, Karazhanbas, Kumkol, North Buzachi, Alibekmola, Central and East Prorvas, Kenai, and Korolevskoye. Three major oil and gas projects of them such as Tengiz, Kashagan, and Karachaganak Kazakhstan's energy sector will be expected growth up to 104 million tons by 2025. Undoubtedly, the three major stocks have positively influenced the country's overall production.

Collaboration with foreign investing countries was the main target of Kazakhstan's leadership in the post-Soviet era. It needs to be emphasized that providing a good environment for foreign investors means privatization. In this way, the privatization of the country's industrial sector has taken place from the very early stages of independence. Kazakhstan was the first country that applied for such a program among the former Soviet countries in the 1990s.³ After the economic revolution in the country, foreign investors were granted equal rights to Kazakh investors, and restrictions preventing businesses' from improvement were lifted. During this process, two main oil and natural gas fields, Tengiz and Karachaganak were shared between Chevron, Agip, British Gas, Gazprom, Lukoil, Exxon Mobil, and other foreign companies. In November 1996, the Canadian company Hurricane Hydrocarbons Ltd. acquired 89.5% of Yuzneftegaz, which ran an oil field in the Aral region, and decided to rebuild its organizational structure. The company's initial investment reached up to \$120 million. More than 3000 foreign companies have worked in the Kazakh market since 1994 and they have invested more than \$8 billion in total.

³ Sally Cummings, *Kazakhstan: Power and Elite* (New York: I.B. Tauris, 2005), 34.



Today, Kazakhstan, as one of the richest countries, is getting a chance to become a world leader in oil and natural gas production in the future. There are about 200 oil and natural gas fields in Kazakhstan. Kazakhstan places 11th in terms of the number of oil reserves in the world and 15th in terms of natural gas reserves. The general amount of hydrocarbon resources is expected to reach 11-12 billion tons. 70% of the country's oil reserves place in the western part of Kazakhstan. This shows how important the Caspian basin is and its status for the country.

2. KAZAKHSTAN'S POSITION REGARDING THE LEGAL STATUS OF THE CASPIAN SEA

Kazakhstan is one of the five countries with the majority of energy resources in the Caspian Basin. Today, Kazakhstan owns 2340 km of the overall length of the Caspian coast (7010 km) and obtains its biggest share compared to other coastline states. Therefore, Kazakhstan's approach to the Caspian Sea is clear and it has been claimed that it has the right to operate in the region in terms of the law.⁴

Despite the determination of the position of Kazakhstan in Caspian status after the independence, the country faces the legal status problem of the region, and the solution to this problem has become more and more difficult over the years. After the dissolution of the Soviet Union, newly formed countries like Azerbaijan, Kazakhstan, and Turkmenistan, including Russia and Iran have been struggling for the Caspian Sea. Realizing that the argument for the Caspian energy resources started being a serious international problem, Kazakhstan decided to protect its right in the region and brought its demands to the table. In 1994, Kazakhstan stated the need of accepting the Caspian region as the sea as its first step forward to getting its position in the Caspian status according to the 1982 UN Maritime Law Agreement. Although Kazakhstan advocates the implementation of the conditions laid down in the contract, other countries of the Caspian region demanded equal rights over the region. Despite the Kazakh president's statement, Iran offered the principle of 'joint ownership' and proposes to distribute a 20% share from the region. It is worth to say that Kazakhstan's oil and natural gas reserves in the Caspian region are more than of Russia's and Iran's. Kazakhstan is very efficient and advantageous both in terms of the amount and quality of oil and gas reserves and the length of the coastline. However, despite these facts, the share and influence of Kazakhstan remains very limited regarding the status of the Caspian Sea. But in fact, Kazakhstan has been supporting the division of the region into national sectors since the past.

⁴ Çaęrı Yüce, *Kafkasya ve Orta Asya: Enerji Kaynakları Üzerinde Mücadele* (Ankara: Ötüken Kitabevi, 2006), 89.

During negotiations in 1994 and 1995, the problem related to the status of the Caspian Sea needed to be solved as soon as possible.⁵ The economic crisis that caused the collapse of the Soviet Union makes it difficult to search for a source of income. To recover the country's economy and to lift the economic crisis by selling oil and natural gas to the foreign market is considered as a rational solution for Kazakhstan. However, before accepting any investment for the oil and natural gas industry, Kazakhstan has to be approved by the other coastline states. The unsettled status of the Caspian Sea has been an obstacle to the oil production and pipeline construction in the region, as well as to run oil and gas projects for many years. Therefore, the emergence of cooperation and regional institutions within the Caspian Sea plays an important role in determining the geopolitical position of the country.⁶

Being aware of not achieving any result Kazakhstan decided to make a bilateral agreement with its neighbors. Therefore in 1998 Kazakhstan and Russia signed an agreement about the distribution of the Caspian Sea. In 2003, Kazakhstan, Azerbaijan, and Russia signed another agreement over the regional distribution. As a result of this agreement, the seabed is shared between Kazakhstan (29%), Russia (19%), and Azerbaijan (18%). Iran having the smallest share of the Caspian, argues that this agreement is against international law.⁷

Despite the discussions over the status of the region, the only is the coming together of riparian countries. Azerbaijan, Kazakhstan, and Russia came to terms over the northern part of the Caspian and made a definite share deal.

3. THE INTERVENTION OF GLOBAL POWERS INTO KAZAKHSTAN'S ENERGY SECTOR

3. 1. Russia

Although the Kazakh leadership is trying to balance its 'multi-vector', Russia remains a strong actor in Central Asia and it has tight relations with Kazakhstan. Undoubtedly there is a strong geographical tie as they share a 6,846 km long border. Moreover, 25,6% of the population in Kazakhstan is ethnic Russian, who mostly dwell the northern regions. Although some of the dependency is remarkable in the military, geographical and social aspects, but mainly it comes from the export of oil and natural

⁵ Четин-Байшов, "Каспий Мұнай Мәселесі Және Тарихи Жағдайдағы Қазақстан" *Journal of History* 3/94 (2019), 50-59.

⁶София Черницына., "Проблемы Каспийского Региона: Региональные и Глобальные Аспекты", *Обзоратель* 122/299 (2014), 92-100.

⁷ Darhan Hıdıralı, "Kazakistan'ın Hazar Politikaları", *Hazar'dan Karadeniz'e Stratejik Bakış*, ed. Okan Yeşilot (İstanbul: Yeditepe Yayınevi, 2014) 265-273.



gas. Despite being the world's second-largest producer of natural gas, Russia still tries to keep the price of natural gas under control by seizing Central Asian energy sources. The main reason for coming over the Central Asian natural gas sector is the possibility of stagnation in the Siberian basin and a desire of using other natural gas fields in the northern part for the future. On the other hand, natural resource reserves in Russian Western Siberia are decreasing day by day. At this point, two options are standing in front of Russia: the first one is investing to process the natural gas fields in Eastern Northern Siberia and the second one is to buy natural gas from Central Asian countries to break the gap in the energy market.

In 2001 the Russian economy started growing owing to the new oil Caspian Pipeline Consortium (CPC) that was launched that year. Despite the CPC's shares are divided between three countries (Russia, Kazakhstan, and Oman) and eight companies, the largest part is owned by Russia. The economic success of Russia comes from the export of hydrocarbon revenues. Prices of energy resources help to strengthen the national economy and set new foreign policy goals. Russian President Vladimir Putin sees the Caspian Sea as a strategic tool in foreign policy to consolidate its role in Europe. As for Russia, it seems without rich energy resources, Central Asia will not be able to take its energy superiority in Europe.⁸

To have a very successful partnership, both countries became members of the same organizations such as the Shanghai Cooperation Organization (SCO), the Eurasian Economic Community (EAEC), and the Collective Security Treaty Organization (CSTO). And the most important organization in the energy sector is the Eurasian Economic Community whose member states are Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. These countries are committed to adopting common policies on trade, migration, currency exchange, and infrastructure development. Over the years EAEC member states started to increase their opportunities to have ties in the energy sector, transport area, trade area, and the Ruble zone.⁹

A few projects, in which Kazakhstan is involved, contribute significantly to the energy sector development in Russia. These projects are mostly connected to the construction of pipelines that would pass through the Russia. For example, the Russian company Lukoil runs a number of projects in Kazakhstan such as Atyrau - Samara (15.5 million tons per year) and Tengiz - Novorossiysk (17 million tons per year) oil pipelines and Central Asia – Center gas pipeline (25 billion cubic meters). In 2007 Lukoil

⁸ Roy Allison, "Strategic Reassertion in Russia's Central Asia Policy", *International Affairs* 80/2 (2004), 277.

⁹ Gregory Gleason, "Behind Uzbekistan's EAEC suspension: The 6+3 initiative", *Central Asia-Caucasus Analyst*, 10/22 (2008), 6-9.

invested \$287 million in several projects and this continues increasingly.¹⁰ In 2007 thanks to the company's support 1.60 million tons of oil and natural gas were produced in the Karachaganak field, and the production rate reached up to 10.5% in the following years. On the other hand, another Russian oil company, Rosneft, operates in the Kurmangazy field and has a 25% share output of the project. Additionally, Rosneft has a 50% of share from the Aday field in the Atyrau region.¹¹ Another Russian Company, Gazprom is the main natural gas supplier today among the Central Asian countries. Gazprom has been working with the gas purchase and sales, gas exploration and production processes, and the establishment of facilities in the region since 2001 in association with Central Asian natural gas producing countries. It also contributes to fuel and heating consumption for some regions in Kazakhstan. Gazprom collaborated with Joint Stock National Company KazMunaiGas and shows an example of successful cooperation throughout Central Asia. A joint venture between Gazprom and KazMunaiGas started under the name KazRosGas in June 2002 to raise the sale of Kazakh natural gas in the foreign market. Gazprom produced approximately 8 billion cubic meters of natural gas in Kazakh fields and exported it to Europe in 2009.¹² In July 2006 the presidents of Kazakhstan and Russia signed a protocol for producing and exporting natural gas in the Karachaganak field. By signing this agreement both countries confirmed that the natural gas producing in the Karachaganak field would be processed at the Orenburg factory (Russia) until 2022.¹³

Nearly 3000 Russian companies have been working in Kazakhstan and have received the biggest part of investments from Russia. The economic structure of the two countries is very similar, as most of the national interests are provided by the energy sector. For this reason, both countries continue to cooperate over the sharing of hydrocarbon reserves of the Caspian Basin. On the one hand, the fact that the economies of the two countries depend on hydrocarbon resources by selling the same products to the foreign market makes them competitors in the international arena.¹⁴

Russia has always been committed to buying Kazakh oil cheaper and selling it to the West more expensive. It is strategically important for Russia to prevent seeking

¹⁰ Sabina Mamedali, "Лукойл Инвестировал 9 млрд Долларов В Экономику Казахстана". *Новая Эпоха*. Erişim 29 Temmuz 2020. <https://yenicag.ru/lukoyl-investiroval-9-mlrd-v-yekonomi/284994/>

¹¹ Геологоразведка. *Rosneft* (Erişim 23 Temmuz 2020).

¹² İlyas Kamalov, *Rusya'nın Orta Asya Politikaları* (Ankara: SFN, 2011), 3.

¹³ Алексей Дундич, "Российский Вклад в Формирование Системы Энергетической Стабильности в Центральной Азии", *Центральная Азия: Актуальные Акценты Международного Сотрудничества*, ed. Валентина Шанкина (Москва: МГИМО–Университет, 2010) 40-43.

¹⁴ Ariel Cohen, *Kazakhstan: The Road to Independence. Energy Policy and the Birth of a Nation* (Singapore: Central Asia-Caucasus Institute, 2008), 54.



alternative export routes such as the Trans Caspian pipeline, considering that Kazakhstan could become a competitor in natural gas exports for Russia. Russia tries to prevent Kazakhstan from turning into an independent and effective energy player by using the vertical bond and institutional opportunities that it used to have. Kazakhstan is looking for alternative and rational solutions under this pressure. On the other hand, some experts in Russia argue that transportation of Kazakh oil through the Tengiz - Novorossiysk pipeline in transit is not profitable for Russia, and claim that Kazakhstan is seeking the best price for itself by implementing a multi-directional energy policy.¹⁵

According to the agreement signed by Gazprom, Turkmen, and Uzbek natural gas has been transferred to Russia through Kazakhstan since 2004. Kazakhstan has decided to carry out various projects on which companies to extract and transport its energy resources and to which markets it is transported, Russia has a great influence on the extraction of energy resources in the region and its transportation to the outside world. Although there are oil refinery factories in Kazakhstan which are connected to Russian gasoline and diesel. How meaningful it is to import oil from the south of Russia to the northern regions of Kazakhstan. Factors such as the oil export routes starting from Kazakhstan, passing through Russia, buying and selling energy resources with this country, membership in regional strategic organizations, most of the oil refinery factories close to Russia, and the lack of Russian power in the Caspian region could change the big energy game. These are the most important problems for Kazakhstan that need to be solved with regards to energy.

3. 2. China

The international dependency of China increases, whose economy has been developing since the 1980s. The biggest dependence comes from energy needs. Having 2.3% oil and 1% natural gas reserves in the world, China consumes 6% of the energy worldwide. While the dependence of the country in question on imported energy sources was 30% in 2003, it is estimated that this rate will reach 70% in 2023.¹⁶ In order to meet the needs, China has been using various strategies. In this sense, 50% of the hydrocarbon resources are transported to this country from the Middle East and 22% from Africa, and China remains adhered to the regions specified today. However, instability in the regions threatens China's energy security.¹⁷ In addition, 70 - 80% of

¹⁵ Zhanat Momynkulov, "Rusya'nın Hazar Bölgesi Enerji Politikasında Kazakistan", *Hazar'dan Karadeniz'e Stratejik Bakış*, ed. Okan Yeşilot (İstanbul: Yeditepe Yayınevi, 2014) 151-161.

¹⁶ Ren Dongfeng, *The Central Asia Policies of China, Russia, the USA and the Shanghai Cooperation Organization Process: A View from China* (Stockholm: Stockholm International Peace Research Institute, 2003), 7.

¹⁷ Huasheng Zhao vd., *In Central Asia: The View from Washington, Moscow and Beijing* (New – York: M.E. Sharpe, 2007), 160.

the oil exported to the country is supplied from the Malacca Strait, which is under the control of the USA. The fact that this region is under the control of the USA and it could close the transit route going to China should the China - USA tension increase in Taiwan. As an option, China keeps closer to the Central Asian states as they are safer in terms of geographical location.

The collapse of the Soviet Union, the establishment of newly independent states, and the decline of the population in some former Soviet republics offer China new interests and opportunities, especially in the energy sector. After the collapse of the Soviet Union, Kazakhstan established a diplomatic relationship with China in January 1992 in order to resolve borders demarcation issues, since the two countries share a 1782 km long piece of border and they have numerous cultural, linguistic, and historical exchanges in common. Having established diplomatic relations with China, Kazakhstan took a chance to diversify its energy routes which allows it to enter the international market. Since 1992 the Kazakhstan – China relations have been developing significantly well and it became strategically important for Kazakhstan to be less dependent on Russia's transit routes. As Kazakhstan announced its positive attitude to foreign investments and openness for partnership in the oil production sector, China stood by to support financially especially in the energy sector. China officially got into the oil sector in 1997 with buying 60% share in the Aktobe field from AktobeMunaiGas company. Consequently, the Chinese company CNPC invested over 4 billion dollars for the promotion of the stock. Since then China has slowly and firmly been controlling Kazakhstan's energy sector along with other projects providing better conditions for its economy. After the acquisition of oil and natural gas stocks, China has started investing in pipelines construction according to its diversification strategy.¹⁸

Within this strategy, China supports local pipeline projects financially which connects transnational pipelines running into Kazakhstan. At this point, Kazakhstan became a transit country for three routes of the Central Asia-China pipeline. The vital project the Kazakhstan – China Pipeline is considered beneficial for both countries. The Project consists of two parts: the first part Atasu – Alashankou was officially launched in December of 2005, the second part the Kenkiyak – Kumkol section was completed in September of 2009.¹⁹ These routes connect Kazakhstan and China and it seems to be an alternative way to Russian pipelines. The Omsk-Atasu pipeline starting from Russia and going through to Kazakhstan connected to Atasu-Alashankou which also provides

¹⁸ Zada Shalkieva, *Kazakistan Dış Politikası'nda Petrolün Rolü* (Ankara: Ankara Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, 2009), 56-67.

¹⁹ Ardak Yesdauletova, "Kazakhstan's Energy Policy. Its Evolution and Tendencies", *Journal of Us-China Public Administration* 6/4, (Mayıs 2015), 31-39.



export of Russian oil to China.²⁰ The project, which is planned to transport 200 thousand barrels of oil per day, started working in 2006. China receives the majority of energy resources from the Kumkol field through this pipeline.²¹ There is also a downside of this project which is that the oil pipeline finishes at the border between Kazakhstan and China. Kazakhstan wants this route to be extended to the eastern part of China and even to the Southeast Asian market.

China is seeking diversification ways of oil and natural gas imports from the outside world. In this sense, Kazakhstan is the best candidate to fulfill Beijing's energy policy. Therefore, the Chinese leadership wants its own companies to invest more into the Kazakh energy sector. Today China controls 25% of Kazakhstan's energy industry and it seems to increase in the future. China successfully reached this peak due to the larger fields founded in the Caspian Basin. For example, CNPC bought about 8.33% of shares of Kashagan field which was explored in 2000.

Although the successful cooperation between China and Kazakhstan in the energy sector positively affects the country's foreign policy, it starts reflecting negatively on Kazakhstan's domestic policy. Because China's control of 25% of Kazakhstan's energy sector limits the opportunities of other investor partners coming to the country.²² It is important to note that China's influence on the Kazakh foreign policy has increased gradually, with the increasing relations between Kazakhstan and China, as well as the political and economic developments in the world, among the factors that have influenced Kazakhstan's foreign policy since 2015. It is obvious that in the coming years, China will become an attractive center for developing countries and will be one of the world's largest investors in trade and energy spheres. However, despite the fact Chinese investments and existence impact Kazakhstan's economy positively, there are some domestic downside damages caused to increasing worries about too much control China over the Kazakhstan energy sector. It is known that 25% of the oil stocks of Kazakhstan belong to China and increases from year to year by decreasing shares of other partners. The majority of demonstrations happened in 2016 calling Kazakhstan to stop selling its lands to China. Protestors demanded from the government to take

²⁰ Almas Korzhubayev, "Cooperation Between Russia and China in the Energy Sector Interests, Problems and Prospects". *Oil and Gas Eurasia* <http://www.oilandgaseurasia.com/articles/p/134/article/1427/> Eriřim tarihi: 27 Mart 2020

²¹ "Речь об импорте по Казахстанско – китайскому нефтепроводу". *Нефть Канумал* <https://oilcapital.ru/news/export/21-01-2020/pochti-11-mln-tonn-nefti-poluchil-kitay-iz-kazahstana-v-2019-godu> Eriřim tarihi: 13 Nisan 2020

²² Xuanli Liao, "A Silk Road for Oil: Sino – Kazakh Energy Diplomacy". *Journal Asia Pacific Business Review* 7(2), (2016),39.

responsibility and cancel the plan.²³

3. 3. The USA

Since Kazakhstan has gained its independence, the USA has actively gotten involved in the country's economy to make sure about the complete denuclearization of the country. In February 1994, Kazakhstan removed all nuclear weapons that belong to Russia. After reaching this goal the Clinton administration focused on the integration with the energy sector which is one of three crucial specificities in Central Asia. Undoubtedly one of the features of the American – Kazakh relations is energy partnership. In 2001, both countries established the US-Kazakhstan Energy Partnership focusing on nuclear security and energy partnership. In 2017 Washington and Astana (today Nur-Sultan) strengthened their tie and changed partnership into the dialog about the energy sector starting in 2018.²⁴

Chevron and ExxonMobil were the first companies that started integrating into Kazakhstan's energy sector. Both companies took over the major oil field Tengiz and formed TengizChevroil Company (TCO) in 1993 by signing PSA for over 40 years along with Lukoil, BG Group, and ENI and has purchased 18% of the Karachaganak field since that year.²⁵ As mentioned previously, Tengiz has been one of the biggest stock since the 1970's with proven high-quality oil reserves of 9 barrels which will be growing up to the following years. 50% of the total cost of the product produced in the field belongs to Chevron and 25% to ExxonMobil. After the creation of TCO, a total of 29.79 million barrels of oil were produced in the specified area in 2019, breaking the record of 27 years. If the total direct payments made by TCO in the same year is USD 8.5 billion, its general investment in Kazakhstan's economy is USD 24 billion. In 2016, TCO requested the expansion of the Tengiz site, and *the Future Growth Wellhead Project* was launched. Within the scope of this project, it is planned to increase crude oil production in the area to 12 million tons. It is estimated that the FGW project will cost about 36.8 billion dollars, and the resulting increase in products is expected to occur in 2022. By taking this step, the USA becomes the largest oil producer in the country by further strengthening its position in Kazakhstan's energy policy.

As Kazakhstan has a positive attitude toward foreign investments, American investors started to become important partners in the energy sector. The main goal of the American strategy regarding Kazakhstan is to weaken the Russian policy over the

²³ Raimondi, "Central Asia Oil and Gas Industry – The External Powers' Energy Interests in Kazakhstan, Turkmenistan and Uzbekistan", 30-32.

²⁴ Office of International Affairs, "U.S.-Kazakhstan Energy Partnership" (Erişim 28 Temmuz 2020).

²⁵ Rosemarie Forsythe, *The Politics of Oil in the Caucasus and Central Asia* (Abingdon-on-Thames: Routledge, 1996), 267.



country. Kazakhstan is the crucial point that allows the diversification of American's energy partnership. Therefore, the American administration made commitments to construct export routes starting from this country to Europe. The first step to the saving status quo was the construction of the CPC project in 2001 with the 1505 km long had been reformed and became the only pipeline running across Russia. CPC pipeline is the central line exporting oil from major stocks in Kazakhstan such as Tengiz, Korolevskoye ve Karachaganak to the Russian marine terminal Novorossiysk. Kazakhstan loaded its first tanker in 2001 thanks to CPC. At the moment there is another project BTC which is also supported by the USA and Kazakhstan. The pipeline starts from Baku and goes to Turkey.

3. 4. European Union

After oil prices were risen by OPEC at the beginning of the millennium, the importance of the Caspian Region increased significantly. Moreover, the export of Caspian reserves can be a good alternative to Russian hydrocarbon resources in the international market. For this purpose, the EU started assisting Kazakhstan with Interstate Oil and Gas Transport to Europe (INOGATE) and the Transport Corridor Europe-Caucasus-Asia (TRACECA) programs in 1995. The major goals of the INOGATE Program are to support the efforts of the newly independent states in the following topics:

- Development and modernization of the regional gas transportation system, transportation of oil and petroleum products;
- Identification of alternative routes for carbohydrate transport from the Caspian Sea and Central Asia to the European and Western markets.²⁶

After the collapse of the Soviet Union, the country started cooperating with large European oil companies in investigating and producing the Caspian hydrocarbon resources. The EU-Kazakh relationship has been growing gradually since both sides established diplomatic relations in 1992. A number of bilateral agreements for political, economic, energy politics were signed cooperating with Germany, France, Italy, and the United Kingdom. But the first step was the Partnership and Cooperation Agreement signed in 1995 for a decade, finally, it was put into practice in 1999. As a part of the European energy, the strategy was creating the North Caspian Operating Company (NCO) consortium which includes European companies such as Total, Eni, and Royal Dutch Shell that work on the offshore Kashagan oil field.

²⁶ Yerik Ilyassov, *Avrupa Birliđi'nin Orta Asya'ya Yönelik Politikası ve Kazakistan* (Ankara: Ankara Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, 2010), 30-35.

European Union countries	Oil and Natural Gas Basins
Eni (Italy)	Karachaganak, Kashagan
Total E&P Kazakhstan (France)	Kashagan
Royal Dutch Shell (Holland)	Kashagan
British Gas (UK)	Karachaganak
Repsol YPF (Spain)	South Jambai
Petrom (Austria)	Tasbulat, Aktas
Maersk Oil (Denmark)	Dunga

A number of bilateral agreements for political, economic, energy politics were signed cooperating with Germany, France, Italy, and the United Kingdom. Today the Energy sector is one of the crucial features for economic development in the Kazakh-European relationship, as European countries look for new alternative ways for fulfilling their energy needs. Anyway, most of the oil exports goes to whereas the export of natural gas goes to Russia and China.²⁷ The growing share of Kazakhstan oil's export is delivered through BTC and CPC pipelines from major fields of the country. In this sense, Kazakhstan supported these two projects. They could soften the task regarding diversification of routes for increasing shares of the Tengiz, Karachaganak, and Kashagan fields. On the other hand, Kazakhstan is still dependent on Russia in exporting natural gas.

Although Kazakhstan became an important partner in the global energy sector serves its economic and political developments, this process has some unfavorable challenges as well. The foremost barrier is the high costs for transportation including a long duration of shipping.²⁸ Non-developed transport networks might be the actual reason why the former Soviet republics barely established connection after independence. Consequently, they mainly maintain their old Soviet bloc routes in the CIS framework and try to find a cheaper, better way for exporting. The Caspian Pipeline Consortium (CPC) remains the leading channel for the supply of oil from Kazakhstan to Europe, which accounts for 39.6% of Kazakhstan's oil exports. Previous financial problems (CPC debt) and supply security issues (protracted expectations of oil from the Caspian shelf), which cast doubt on the project's profitability, scared off European investors, who reduced their stake in CPC to 4% against the initial 10.6%. This made it

²⁷ Luca Anseschi, "The Tyranny of Pragmatism: EU-Kazakhstani Relations", *Europe-Asia Studies* 66/1 (2014), 7-8.

²⁸ Renata Mantel, "EU – Central Asia Relations in the Energy Sector with Special Focus on Kazakhstan", *L'Europe en Formation* 375 (Haziran 2015), 2-15.



impossible for them to influence the progress of the project.²⁹

3. 5. Turkey

Turkey was the first state which recognized Kazakhstan as a sovereign country in 1991. While it was being a part of the Soviet Union separated by political and historical circumstances, the connection between the countries had been lost. But when the crash came up to Soviet-era Kazakhstan and Turkey restored their relations. Turkey and Kazakhstan officially signed an agreement on political, trade, economic, scientific, technical, cultural, and social communication issues in 1991, diplomatic relations started in 1992, the embassies of both countries were opened, as the Turkish growing economy depends on the natural resources from abroad. In 2008 its energy needs were around 70% of imports, a year later it increased up to 90%.³⁰ In this sense, given the index makes Turkey's geography perfect to be a transit country between Europe and Central Asia. European countries see Turkey as an optional route to weaken its dependency on Russian exports.³¹

After gaining its independence Kazakhstan became a significant country for Turkey in the Caspian basin. In this context, Turkey is a good solution for diversifying energy transportation routes for Kazakh hydrocarbon resources. The vast amount of hydrocarbon resources are a secure supply for Turkey. From the energy security perspective, Kazakhstan has a high potential to contribute to Turkish energy supply security. So, Turkish-Kazakh energy relations need a new partnership apart from the KTM.

As has been mentioned above, Kazakhstan is dependent on Russian energy routes, for changing this dependency Turkey applied for the Baku-Tbilisi-Ceyhan (BTC) pipeline. The BTC is the main project and alternative route for diversifying export routes for both countries.³² However, the Russian Federation has been trying to keep Kazakhstan dependent on it. Russia has always been using the power of its hydrocarbon resources as a foreign policy tool. As a result, Russia was always against the possible expansion of BTC. Besides Russia, pressed Kazakhstan for the expansion of the pipeline and threatened with economic and military actions which became popular after

²⁹Михаил Лихачев, "Нефтяные инфраструктурные проекты ЕС и Казахстана", *Российский Институт Стратегических Исследований* (25 Nisan 2020).

³⁰ Gareth Winrow, "Turkey: An Emerging Energy Transit State and Possible Energy Hub", *The International Spectator: Italian Journal of International Affairs* 46/3 (2011), 79-91.

³¹ Dastan Almen, *Turkish policy towards Kazakhstan* (Ankara: Orta Doęu Teknik Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, 2013), 64.

³² Esra Hatipoęlu, "Türkiye Kazakistan İlişkileri", *Türkiyenin Avrasya Macerası*, ed. Mustafa Aydın (Ankara: Nobel Basımevi, 2007), 275-324.

the Georgian Crisis in 2008.³³

CONCLUSION

As the most successful country in Central Asia, Kazakhstan identifies with the Turkic nomadic past, Islamic culture and civilization, as well as the multinational education that is a Soviet heritage. During the last thirty years of independence, Kazakhstan has become a country with a positive profile in the international community. By the 1990's collapse of the Soviet Union, the Kazakh leadership had been concerned by the difficulties of building a state and staying apart from other former Soviet countries in the global arena without being part of a large union. However, after a short time, the hydrocarbon resources of the country were discovered as the "pearl of Central Asia". In pursuit of the black gold, global powers were attracted by the state in terms of the wealth of hydrocarbon resources, which coincides with the period of the state-building efforts. The question is whether it will fall into the trap and suffer like other oil-producing countries. Additionally, the economic crisis experience caused after the collapse of the Soviet Union forces Kazakhstan to lead a multi-vector policy with the regional and global powers.

This paper shows that the hydrocarbon resources take up a significant place in the foreign policy of Kazakhstan and make an impact on its regional status in Central Asia. The country attempts to balance relations with the world's most powerful actors such as the USA, Russia, China, European countries and also benefits from these partnerships. Having hydrocarbon resources, which is the main goal of the strategy of the great powers in Central Asia, not only provides an advantage for Kazakhstan but also brings a disadvantage. There are some problems researched in this study: landlocked geography which is the main reason for the economic dependency on Russia, border and land problems with China and Russia, demographic issues, decrease of energy income, religious extremism and terrorism, the American presence in Central Asia, etc. To prevent these problems, Kazakhstan follows a balanced and multi-vector policy. To reduce its dependence without having tension between Russia and China, it increases the radius over other countries and tries to support the process of strengthening its independence.

As long as China tries over the years to get into the energy sector of Kazakhstan to fulfill its needs in energy, which will predictably increase its radius by 2030 – 2050 leaving behind the USA. Kazakhstan is the best transit country for both Eurasian and Islamic countries. As for the USA, it takes a significant place in the growing and

³³ Halil Yavuz, *A Comparative Study of Turkey's Energy Security Policies Towards Kazakhstan and Iraq* (Ankara: Orta Doğu Teknik Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, 2018), 65.



flourishing energy sector of Kazakhstan. The USA keeps offering opportunities to the country in such great areas as macroeconomic policies, innovative education, and administrative training. It's a matter of fact that Kazakhstan will have been leading a multi-vector energy policy for a long period of time. Another fact is that Russia is an exporter of hydrocarbon resources but it is also a competitor at the same time. This is the main feature that sets Russia apart from other actors such as the USA, the EU, China, the main consumer countries of oil and natural gas. At least this situation makes Kazakhstan better and fosters collaboration with other countries as equal business partners.

Although Kazakhstan tries to diversify export ways in the energy sector, Russia still has a great influence on the extraction and delivery of energy resources in the region to the outside world. There are some facts such as the oil export routes starting from Kazakhstan's territory passing through Russia, the purchase and sale of energy resources with this country, membership in regional strategic organizations, being close to oil refinery factories of Russia, and the absence of a third power that could change the energy game in the Caspian region. In the southern part of Kazakhstan there are refinery factories to process oil, but this is still not enough to process all the oil for export. How meaningful is it to import petroleum products from the south of Russia to the northern regions of Kazakhstan and to send the majority of oil products to Russia's oil processing factories? These are some of the important issues that need to be answered in the Kazakh energy sector.

Today, international conflicts, natural disasters, pandemics happening in the world influence the global oil and natural gas prices. Therefore, this also affects the country's export process. In this context, we see that COVID-19, which took effect in 2020, had a severe blow to oil prices. In the report of the Minister of Energy of Kazakhstan Nurlan Nogayev at the meeting of the Council of Ministers, declared that 51.5 million tons of oil were produced between January and June of 2020. It is determined that this figure has decreased to 1.4% compared to the last year. Although the trade route between Kazakhstan and China has been stopped, the export of oil and natural gas products has not stopped. However, the decrease in the oil price compared to the world market will cause a serious crisis in the economy of Kazakhstan. The crisis around the coronavirus epidemic is certain to have a significant impact on the economy of Kazakhstan and will soon cause an increase in inflation and a decrease in the income of energy and metallurgy companies. Even if the effects of the epidemic on the economy of Kazakhstan will improve, its economic developments may stall.

In my opinion, Kazakhstan should promote the economic and export diversification of all raw materials found in the territory of the country. It is necessary to

invest in technology for producing more oil and natural gas, and it is important for the country to employ educated experts in the energy sector. The country has to maintain good relations with its neighbors and continue a well-balanced policy as well. In conclusion, we should point out that the price of oil seems to be dependent on the global financial market, not on the oil market, and on fact this situation increases the risks in the state and the oil sector.

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