

Kim Jung Min

THE NEW PIPELINE CONSTRUCTION SUGGESTIONS FROM CENTRAL ASIA TO FAREAST ASIA THROUGH MONGOLIA

• Prologue

Kazakhstan is a relatively safe country in Central Asia rather than other countries. However there is an Invisible war between Western countries (EU & USA), and former Communist countries which are Russia and China (China is a still Communism politically.). Both camps have tried to expand their political and economic influence into Central Asia since 1991. Despite Russia lost political influence in Central Asia, Russia is still the biggest influential country there. Fortunately Russia could possess the right of pipelines in Central Asia, so Russia could keep interference by economy, because the main income of CIS countries are exporting of raw materials such as oil, gas, metal etc through Russia.

Such Russian's monopolized influence seemed to be kept forever, but EU and USA started to develop new BTC pipeline, and China built a new pipeline from Atasu to Arashankou as well. After these pipeline competitions, Central Asian countries prefer to take a diplomatic balance foreign policy, and it has worked quite well till 2009.

However from 2009 China started to develop closer relationship with Kazakhstan. And China is the sole country which has successfully succeeded business in Kazakhstan while USA and Russia has been jammed because of a financial crisis since 2007.

Due to Chinese active diplomatic triumph, the balance of power in Central Asia started to collapse gradually. The geopolitical location of Central Asia is so important for the world to keep peace and develop economy without conflict.

Historically when Central Asia lost the balance, conflicts always came later.

- Zunghar war (1755~1758): The Qianlong emperor invaded Central Asia.

The conflict developed between Qing dynasty and Russian empire later.

- 1st Afghanistan war (1978~1992): After collapsing of USSR, Afghanistan got sovereignty for a while.

- 2nd Afghanistan war (2001~present): Junior J. Bush, American president expanded the military of USA to the Central Asia. (There were no competitors)

Whenever the influence of USSR was bigger than the Western, Afghanistan was in trouble.

Thus I would like to suggest a new pipeline construction suggestion through Mongolia in order to get power balance in Central Asia. It will take time for CIS countries to develop economy and increase military power to get their own self defense, thus I would like to describe well balanced environment.

• Assumption & main issue

“If Kazakhstan builds a pipeline through Mongolia, Kazakhstan can solve diplomatic, economic problems with Russia, China, and Western countries (USA & EU) at once. And it could help keeping the power balance between NATO (EU & USA) and SCO (Russia & China).”

There are three major pipelines through Kazakhstan which are CPC, BTC, and Kz-Sino pipelines. Nowadays the Kz-Sino line could get better benefit rather than other pipe lines. Therefore, exporting oil through Kz-Sino is the most ideal way for Kazakhstan, but the balance of power will be collapsed.

When CPA and BTC pipelines were built, many multinational companies joined there and shared the right, so each pipeline has a balance. It means a certain powerful country cannot monopolize the line. But the Kz-Sino is different the share of the pipeline belongs to Kazmunai gas and CNPC, thus Kazakhstan new born country cannot sustain the pipeline and has yielded the right gradually. Especially Kazakhstan has borrowed huge amount of debt from developed countries including China. If Kazakhstan does like this for long time, Kazakhstan will lose quite big amount of the right of Kz-Sino pipe line. And it will cause imbalance of power in CIS.

• Summary

Chart1) the details of pipelines in Kazakhstan

member of SCO in 1996. Chinese economy wasn't strong enough and Russia needed a supporter, so both countries could take benefit from the alliance, but now China can take more benefit than Russia. The military expenditure of China already got ahead of Russia in 2005. Under this situation, Russia can take economic benefit from China by selling energy, but Russia is feeding and growing up a next super power country next to Russia as well. Therefore in the long term Russia will make a closer relationship with EU & USA rather than China.

If such situation happens, it will be difficult to sell oil to China because of the diplomatic conflict. Thus Kazakhstan would better export oil to China through Mongolia in order to not to be crashed by them directly. Exporting oil to China is inevitable, because China is the nearest and hugest oil consumption country, so China is a very important

consumer for Kazakhstan economy development. But Kazakhstan needs to consider other actors together.

In addition, Kazakhstan also needs to consider political, economic sovereignty as well.

The right of the pipeline from Kazakhstan-China belongs to CNPC. According to the contract, the pipeline is owned by CNPC and Kazmunaigas, but since financial crisis in 2007, Kazmunaigas has yielded a certain amount of share. In the long term, CNPC might gradually take more share than Kazakhstan in future, and then finally oil export to China will not be profitable any more.

So for Kazakhstan economic sovereignty, Kazakhstan needs to make the third pipeline through Mongolia.

- The possibility of construction

Chart4) The details of oil pipelines through Central Asia & Through Mongolia

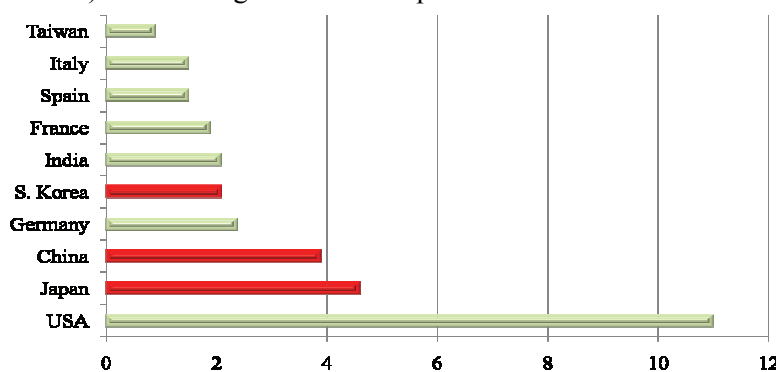
Pipeline	Length	Maximum Discharge	Capital	Remark
CPC	1,510km	700,000 barrels per day (111,000 m ³ /d)	\$2.67 billion	Kashagan-Black Sea
BTC	1,768km	1 million barrels per day (160,000 m ³ /d)	\$3.9 billion	Baku-Tbilisi-Ceyhan
Kz-China	2,228km	411,000 barrels per day (65,000 m ³ /d)	\$700million	Atasu-Alashankou
Siberia	4,857km	1,600,000 barrels per day (254,000 m ³ /d)	\$25 billion	Taishet-Daqing
Via Mongol	*9,250km	*1,300,000 barrcls per day (*200,000 m ³ /d)	*\$60 billion	Iran -Mongol

Source: IEA & Wikipedia * The capital of the pipeline via Mongolia is an assumption.

The distance of the pipeline through Mongolia is about 9,250km. It is much longer than Kz-China pipeline, even Siberia pipeline, so it seems

unprofitable pipeline. But chart5 shows that is a profitable.

Chart5) The ranking of oil consumption countries in the world

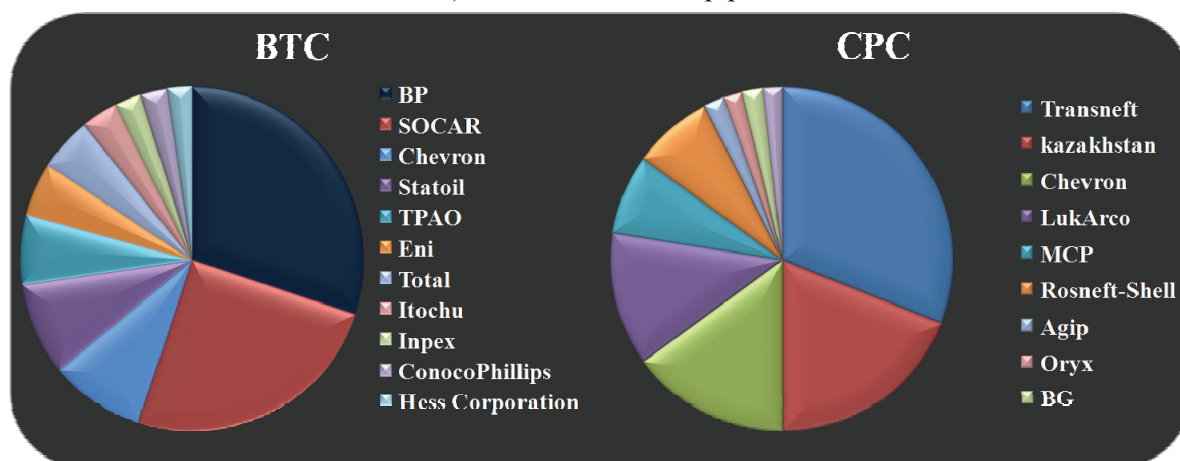


Source: IEA

The total amount of the oil consumption of Fareast Asian countries is bigger than USA. It means despite it costs a lot, there is a reasonable reason to build pipeline to Fareast Asia. China is planning to build pipeline from Aktobe to Beijing by itself, and Russia is planning to build to Siberia pipeline to Daqing city in China. Therefore building the pipeline through Mongolia can make sense. But

there are financial and diplomatic problems. If a country constructs the pipeline alone, the country could claim the right of managing the pipeline. It will not help for taking a power balance policy. Thus the most suitable solution to build the pipeline is sharing the right of pipeline and divides the district for building like CPC and BTC pipeline.

Chart6) Shareholders of the pipelines



Source: IEA

If many actors share the right of the pipeline and build, the cost of construction could be controllable. Besides it will help to sustain power balance in Central Asia. Russia and USA shared the right even if they had the pipeline competition, but Kz-China pipeline doesn't. The distance Kz-China is 2,228km. It is much longer than CPC 1,510km and BTC 1,768km. It is owned by two countries which are Kazakhstan and China. It looks equal and Kazakhstan can take more benefit from this pipeline than other pipelines. But Kazakhstan depends on many things from China not only manufacturing products but also finance. China has more power than Kazakhstan in many sectors. Thus it is difficult to keep its sovereignty without other competitors which have enough power to compete with China. It is highly possible that the Kz-China pipeline will not be profitable in the long term.

Therefore to keep economic sovereignty and peace in Central Asia, Kazakhstan needs to build no monopolized pipeline to China for safety. The pipeline will be a competitor with Kz-China pipeline and it will help Kazakhstan from the threat from outer actors.

* * *

Қазақстанда балансты сақтау үшін Қытайға жасаған мұнай құбырларын Монғолияға жалғастыру керек. Егер Орталық Азияда осы энергетикалық бизнес жасаса, Қытай Қазақстанда бірінші болуы мүмкін, сонда осы баланс бұзылады. Сондықтан Қазақстанда тыныштық және екі ел арасында баланс қорғау үшін мұнай құбырларын Монғолияға жасау керек.

* * *

Автор статьи рассматривает баланс сил между Западом, Россией и Китаем в области энергетики, доказывая стратегическую важность Монголии как транзита территории для казахстанской нефти.