

# ENERGY IS THE KEY TO 21ST CENTURY EURASIAN GEOPOLITICS



The pattern of world energy trade has changed significantly in recent decades and this is having profound implications for global geopolitics. Several Asian economies, particularly the People’s Republic of China (PRC) and India, have emerged as the region’s most conspicuous energy consumers because of their phenomenal economic growth. On the supply side, the world’s largest energy producers are located in the geographically proximate regions of Central Asia, the Middle East, and Russia. A complementary relationship between these energy exporters and suppliers is evident and is being strengthened, connecting together Central and East Asia, parts of India, the Persian Gulf, and Russia. I call this the “new continentalism.”

This new continentalism is based on the emergence of an integrated Central, East, and South Asia. This process began soon after the Cold War ended.

Political barriers have largely been eroded as geopolitical conflicts in this part of Asia have decreased; there has been no major state-to-state war since the war between the People's Republic of China and Viet Nam in 1979. On the contrary, increasing interdependence through transcontinental trade, especially in energy, has intensified to a remarkable level—driven mostly by economic forces. The new continentalism is likely to intensify.

Several crucial political developments have paved the way for a more integrated continent. These include the nationalization of Aramco in Saudi Arabia in 1974, the opening up and modernization of the PRC starting in 1978, the Iranian Revolution in 1979, economic reforms in India in 1991, and the collapse of the Soviet Union and the creation of the Republic of Kazakhstan in 1991, among others. These political changes transformed the patterns of economic interdependence—including in energy—across Asia.

### **Geopolitical context**

Despite the popularity of geopolitics as an interpretative discipline until the middle of the 20th century, it was largely overlooked during the Cold War. However, it is undergoing a revival and its relevance is particularly vivid in energy; unlike other resources such as finance, energy resources cannot be transported easily.

Geopolitics can explain how economic imperatives can surmount political constraints to connect East and South Asia to the Middle East and Central Asia.

The potential future relationship among the PRC, India, and Russia will be of great significance to global geopolitics. Changes over the last 20 years have made this relationship more important than it was previously, marked by the PRC and India becoming among the world's largest energy importers, and Russia becoming one of the world's largest oil and gas producers and exporters.

Taken together, Russia and the Gulf states contain the majority of the world's proven hydrocarbon reserves (60% of oil reserves and 64% of gas reserves). Ties between these two producing regions seem likely to grow. Considering the rising oil demand in the PRC and India, and the lack of hydrocarbon energy sources in Japan and the Republic of Korea, Iran will continue to be an important partner in the energy activities of Eurasia.<sup>1</sup> Iran's four biggest trading partners are in East Asia, with the PRC being the largest. The geopolitical relationship between Iran and Russia will be extremely important. Iran is central in the geopolitics of not only Eurasia but also the world with its triangular relationship with North Asia and the West. Meanwhile, Afghanistan and Pakistan are also in the picture through their deepening ties with the PRC.

It is clear that Eurasian geopolitics is undergoing major changes, fashioned by global energy supply and demand patterns.

The significance of geography is also visible domestically, particularly for larger economies. For example, the PRC's economic dynamism has led to the emergence of new inland growth centers such as Kashgar, which is twice as close to the Straits of Hormuz as it is to Beijing. The PRC has a changing and rapidly spreading pattern of energy demand and a strong incentive to finance cross-border pipelines to meet its energy needs. This development will also intensify Eurasian interdependence. Additionally, the question of Central Asian economies, their future, their autonomy, and relations to their neighbors—the PRC and Russia—as well as other partners, including Japan, will continue to exert influence in Eurasian geopolitics.

### **Potentially destabilizing factors**

Trans-national forces are important, and integration is indeed occurring. But the region also is potentially unstable. Destabilizing factors include large populations with a high share of young people (20% of the population in Iran and 24% in Saudi Arabia is under the age of 20), and the risk of rising unemployment. Energy prices are likely to be volatile and to rise in the long term.

As interdependence increases it will involve not only the regional economies, but, to some extent, outside economies such as the United States.

Security concerns are another potentially destabilizing factor. Several countries in the region possess chemical, biological, and nuclear weapons with relatively weak controls and fail-safe systems. Nonetheless, despite the uncertainty and the existence of possible destabilizing issues, a much more interdependent Eurasia is being born in the post-Soviet era.

### **Multilateral institutions**

Multilateral institutions have an important role to play in this growing interdependence. The Asian Development Bank (ADB), of course, is the most important one. In a Eurasia not constrained by the geopolitical barriers of the Cold War, infrastructure has emerged as key to strengthening connectivity and ADB and its institute, ADBI, have been doing very interesting and useful work on Asian infrastructure. The growth of many Asian economies is altering energy demand patterns with great stress being laid on infrastructure—pipelines, long-distance electric power transmission, superconductivity, and superhighway networks, among others. As these infrastructure facilities are built and brought on-stream they will intensify the trend toward energy interdependence in continental Asia. Post-Fukushima, Japan may also tap into this energy network.

Interdependence in continental Asia is rising and the role of multilateral institutions in stabilizing that process will be crucial. A more integrated and interdependent Asia will be significant in geopolitical terms and will mean a greater role for Asia in the world. Given the various destabilizing elements and natural tensions among the countries in the region, the robust engagement of multilateral institutions is needed to drive the integration process.

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