

## **MACRO ADVISER: China: Grandmaster of Great Game II (Central Asia)**

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Chris Weafer of Macro-Advisory

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At stake for China is nothing short of its ability to push beyond being the dominant regional power in Asia to become a global superpower. For Russia the goal is to stay relevant in its traditional backyard and to break up the geopolitical dominance of the US.

After several failed efforts by the US and Europe in the nineties and early noughties, a new Great Game has finally started in Central Asia. This time the principal protagonist is China with Russia again in the supporting role. It appears that Beijing is prepared to spend up to half a trillion dollars to win this game because the prize it is competing for is a big boost for its ambition to become a global super-power.

Moscow cannot compete with that financial firepower, but is very adept at the sort of political subplots that can keep it very relevant, and very integral, to the game. The countries in Central Asia, which provide the physical surface for the game, will gain financially, some very handsomely, from their respective roles. In this particular game, there is almost zero incentive or pressure for any countries to make political or investment climate changes. These are not required to play in this particular game – and nor were they in the original game. Hence it is a very attractive win-win for the host country elites.

The first Great Game in Central Asia started to wind down sometime during World War I and formally ended as the countries in the region fell to the Bolshevik invaders. One hundred years later a new Great Game has started, although some of the players are late onto the field and appear to be still reading the playbook. The first Great Game, a description properly credited to one of the more important individual participants, Arthur Conolly, and later made famous by Rudyard Kipling in his novel “Kim”, involved a great deal of adventurism and espionage (Conolly, a British spy, was beheaded in Bukhara in 1842) and this latter day variant promises to be just as intriguing and durable.

In the 19th century, the principal players were Great Britain, the superpower of the age, Russia and, to a lesser extent, Persia. Today the world’s superpower, the US, is not involved and neither is Europe, despite the occasional flag waving tour. Instead, the principal protagonists are China, Russia and, in a lesser role for now, Iran. The Central Asian states, no more than pawns in the original contest, have a greater role to play this time. Pawns with selfawareness and at least an ambition for self-determination will always complicate any game of chess. They add another layer of unpredictability to this game version. Finally, Turkey, the great power in Central Asia hundreds of years before the British and Russians arrived, is showing signs that it too wants to play in the game, albeit mostly nearer to its border.

### **Status anxiety**

What do we mean by the Great Game? In simple terms it is the contest between great nations to establish political influence, if not actual power, in the countries stretching from the Black Sea to the border of China’s Xinjiang province. The reason to get this political influence is so that trade and supply routes can be set up

securely to allow the external nations to become more economically powerful and self-contained and to enhance their status as a global power.

At stake for China is nothing short of its ability to push beyond being the dominant regional power in Asia, which it undoubtedly is, to become a global superpower. For Russia the goal is to stay relevant in its traditional backyard and to break up the geopolitical dominance of the US and Europe. Iran is starting to emerge from 35 years of isolation and is keen not only to have a political role in the countries atop its northern border, but also to attract investment to help it rebuild its battered economy. For the incumbent leaders in the Central Asian states it is all about maximizing income and being left alone to run their respective countries without external criticism.

China is undoubtedly the dominant player in Great Game II. It wants to at least equal the global power of the US. To achieve that, apart from military muscle it must become a more important economic power. It is starting to address one part of this equation with the new Asia Investment Bank, which it will dominate. But another of its big problems is that it does not have a dominant presence on the world's oceans. It is building that far too slowly. Ruling the waves was a large factor supporting Great Britain's global dominance in the 19th century and it is a big factor supporting the US' dominance today. It means that, without this, Beijing is very vulnerable to any disruption to both the export of its goods and imports of raw materials. A block on either would neuter China's global ambitions quite quickly.

The alternative, at least until a grander navy can be built, is to replicate the sea routes across land and, especially across friendly lands. This is the basis of Beijing's 21st Century "Maritime Silk Road" program. Basically it means building multiple rail and road links across Central Asia to link into transport networks that China is starting to fund in Turkey, Eastern Europe and in East Africa. But instead of building only one import/export route China is engaged in several proposed projects, which include:

- During his recent visit to Pakistan, China's president promised \$45bn of investment into infrastructure projects principally aimed at creating a rail link from the common border to a planned \$10bn rebuild of Gwadar port on the Arabian Sea. That would allow for the faster export of goods to markets in Africa, India, Europe, and the east coast of North and South America.
- China is the main source of finance for the proposed rail link between Urumqai, the capital of Xinjiang province, to an Iranian port on the Gulf of Oman, which will transit Kyrgyzstan, Kazakhstan and Turkmenistan.
- Beijing is paying several hundred million dollars for a new rail line linking Armenia with Iran. This will eventually be a spur from the main China-Gulf line to a port on Georgia's Black sea coast.
- Beijing is also discussing a new rail line that will run through Tajikistan and Afghanistan to link up with the rail lines running to either the Black Sea, the Gulf of Oman or to Istanbul.
- China has said it plans to directly invest \$1bn and make another \$5bn by way of loans and guarantees, in the \$21.2bn Moscow to Kazan highspeed rail link, which it sees as part of a larger project to build a high-speed passenger and freight line from China's pacific coast via Kazakhstan to St Petersburg, and then onwards into Europe. The estimated cost of that total project is put at almost \$250bn.
- During the Eastern Europe-China summit held last December, Beijing promised \$1.5bn to build a highspeed rail link between Belgrade and Budapest, and indicated it is interested in funding a larger expansion of rail links from Istanbul into Central and Western Europe. It is also providing most of the funding for the upgraded rail link between Nairobi and Mombasa in east Africa.

China is not just funding rail and road lines to expand and secure its global trade routes. Under a separate program called the Silk Road Economic Belt, Beijing is moving fast to establish more secure and direct supply lines bringing materials and energy into its growing economy. It has already made a great deal of progress:

- Approximately \$20bn has been spent building three gas lines from Turkmenistan, via Uzbekistan and Kazakhstan. Since the first lines opened in 2009 a total of 93bn cubic metres (cm) has been exported and Turkmen gas supplied 52% of China's gas needs last year. A fourth line is currently under construction that will take gas via Uzbekistan and Tajikistan.
- Kazakhstan already exports 200,000 barrels of oil per day (b/d) to China via direct pipeline. But the big prize for Beijing is the estimated 1.5mn b/d that Kazakhstan's offshore Kashagan field is expected to eventually produce when technical problems are sorted out. No final route has yet been determined for that oil, ie. the US and EU are lobbying for the oil to flow west to a terminal on Turkey's Mediterranean coast, but China has the resources and determination to make sure either most, if not all, comes its way.
- Those projects are in addition to the oil that China now imports directly from Russia via the East-Siberia Pacific Ocean (ESPO) pipeline and the recently agreed major gas pipeline to be built to carry 40bn cm a year of Russian gas direct to China's industrial heartland.

For China, therefore, the objective of participating in the Central Asia Great Game is clear enough; if it wants to have a secure global trade footprint and safe supply lines for the energy and materials it requires, it needs multiple road and rail links and pipelines across the region. The fact this vast transport infrastructure will also create lots of jobs at each stop on the line and offer improved trade links for countries also able to access the road and rail links certainly helps ensure that the political ties are also strengthened. Not to mention the billions of dollars each pipeline and rail transit country will earn from annual fees. Tajikistan, for example, is expected to earn \$3.7bn from gas transit fees from the new gas pipeline over the next thirty years. A huge sum for a country whose total GDP is only \$8.5bn.

### China's Maritime Silk Road plan



Source: Reuters

## **Polar opposite**

As mentioned, Moscow cannot compete with the huge sums being spent by Beijing and nor does it even have the opportunity. It has no need for trans-regional rail links and it will, in any event, be the biggest beneficiary of Chinese infrastructure spending if the proposed China-Kazakhstan-Russia-EU rail line is built. For the Kremlin the issue is different; it is partly about helping China's political emergence as a means of breaking what it sees as the dominance of the US (aligned with the EU) in global power.

But simply helping China become the next global super-power is dangerous for Russia, as it could end being marginalized again. Hence the focus on such other groups as the BRICS and the Shanghai Cooperation Organization (SCO), in which most of the Central Asian states are members. Pakistan and India are expected to join the SCO this summer in an expansion that is important for Moscow. While Pakistan's cooperation is being bought off with Chinese investment, India creates a better balance in the organization and can help prevent total Chinese dominance.

Russia's persistence in pushing the Eurasian Economic Union (EEU) is also part of a Moscow gambit in the Great Game. The Kremlin has made many unexpected concessions to ensure the EEU came into being, eg. substantial energy subsidies to Belarus and Armenia, loans and investment to Kyrgyzstan, and agreeing that the office of the financial regulator, which will eventually oversee all financial institutions and activities within the EEU, will be based in Almaty. The reason for that is because, without having a strong position within the EEU, Moscow risked being marginalized in its own backyard by China's economic encroachment.

The leadership in Tehran has also been very busy in recent months with bilateral minister meetings covering trade, investment and political cooperation. Like Russia, Iran is also currently benefitting from Chinese investment and is set to gain further as transport links are extended to the Arabian Sea. China has already invested over \$25bn into Iran's energy sector and is openly eager to play a major role in opening up the country's vast oil and gas resources.

Central Asia is a key part of China's ambition to become a truly global superpower. What it can't do, or do far too slowly, with aircraft carriers and naval battle fleets, it can do much more quickly with railroads and asphalt stretching across Kazakhstan's Steppe, the Ferghana Valley and Turkmenistan's deserts. Along with expensive investments in Pakistan, Russia, east Africa, Turkey and the Balkans, this can eventually help China compete globally with the US. Of course, for the government in Beijing this process can hardly be described as merely part of a game; for them it is a deadly serious great (global) game.