AFGHANISTAN: THE GEOPOLITICS OF REGIONAL ECONOMIC INTEGRATION. THE EMERGENCE OF CHINA AS THE NEW FACILITATOR

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Introduction

Once a dormant region, the great span of territories and nations surrounding Afghanistan is now more central to global affairs than ever. Indeed, the geopolitics of the region of Central and South Asia may now help define the future of the 21st century.

At the same time, across these territories, the very nature and character of the political, economic and security currents have been shifting relentlessly. Rather than simply a replay of the old "Great Game", what is transpiring here now may be an undeniable precursor of, and a new window looking forward into, the world's contemporary politics, influencing other parts of the globe.

This dynamic is marked by Russia's retreat, and at the same time, the emergence of China as a new type of *Pax Romana* power. In turn, China's rise is now inexorably re-balancing the interests of both regional and global players such as Russia, India, Europe and the United States. A closer examination of this region reveals that as the West is now hindered by its worst economic crisis since the 1930s, Asia's rise may be reflective of a steadfast ascent and signals a permanent trend pointing to the beginning of an undisputable multipolar world. The military presence of the US and European allies in Afghanistan has defined their engagement in this region for over a decade now. Their efforts were focused on controlling the regional threats impacting Afghanistan and in the process producing economic and social stability. However, despite some advances, Afghanistan's stability is not assured. In particular, the model of intervention pursued by the West in Afghanistan has not produced results in securing its economic growth and its integration within the region. Without assuring Afghanistan's economic stability, the region will remain mired in conflict risking wider instability. What other major force might emerge which would allow for the creation of conditions offering a new dimension of strategic approaches to realising the type of stability, often desired but not attained, and which might act as a positive agent for a more effective regional economic integration?

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China's rise in the region might just offer such an opportunity. In fact, Beijing's influence in the greater region of Afghanistan has been rapidly increasing over the past two decades. However, to better comprehend China's role within this broader region, one must understand its role as a rising global power.

China's economic growth has been nothing short of historic, rising at about 10% a year for the past 30 years. No other nation of this significance has ever achieved such a feat in human history. China is now the world's largest energy consumer, its largest manufacturer, its largest merchandise exporter, the largest creditor nation; the largest holder of foreign currency; and by new economic measures, China may already have surpassed the United States as the largest economy in the world. Economic power of this scale is inevitably followed by a rise in political and military power. Although not assured for China as of yet, history is a witness in this regard. After World War II, the ascendance of the United States as the most powerful nation in the political and security realms followed its rise as an economic power. The same was true for the United Kingdom in the 19th century. However, the speed and scale of China's rise is unprecedented in historic terms and one which will now redefine world geopolitical power. The 19th and 20th centuries belonged to the West. The 21st century is China's. Importantly, it is not sufficient for any outside power to have a presence in one or the other country alone in order to produce change across the entire playing field in the region. In this sense, although China has a major economic presence in Afghanistan, instead its dominance of the region as a whole is now itself the vital factor sparking change and facilitating Afghanistan's growth, due to a series of concurrent waves of geopolitical interventions now spurring a new type of economic integration in the region.

In consequence, the central theme of this paper is that beyond China's overreaching role, in the geopolitical interactions created as a result of China's emergence, a particular dynamic is emerging in the region which is opening a new set of prospects bringing about a significant new model of economic integration not seen previously.

It is further contended that no geopolitical strategies can be considered or pursued without fully taking into account China's current, emerging and future role in the region. In this sense, for the region spanning from South Asia to Eurasia, with Afghanistan at its heart, an understanding of all probable future states cannot be formulated without first comprehending the impact of China's upcoming global rise and dominance as it is evolving in real-time before our eyes. In this sense, economics may now be swaying politics in this region - with similarities to the Europe of the 18th and 19th centuries - so much so, that it is contributing to shifting the tectonics of global geopolitics and creating the type of economic integration which has been long sought, but never achieved, by other global powers.

1. Geopolitics & Regional Economic Integration

The idea of developing a regional strategy to resolve the challenges of the region of Afghanistan via economic development has been in debate for as long as strategies have been pursued there. Typically, regional approaches have been couched under three distinct but related attempts:

i. The first comes from the realisations that as other approaches have not borne fruit, a rush to engage in endless conferences and regional venues (Regional Economic Cooperation Conference on Afghanistan (RECC-A), Central Asia Regional Economic Cooperation (CAREC), South Asian Association for Regional Cooperation (SAARC), Shanghai Cooperation Organisation (SCO), Economic Cooperation Organisation (ECO), etc.) to seek agreements on a series of regional interests would realise the protagonists' hopes and bring about results.
ii. Second, the premise of convening gatherings among regional neighbours and power brokers such as the United States (US), European Union (EU) and Russia, where political deals could be struck, was seen as mechanisms to pave the way for stability efforts.
iii. The third approach sought to focus solely on economic cooperation in the region with the expectation that trade and economic ties among regional players can resolve political and geostrategic differences.

All of these have been pursued in the past decades. However, none have resulted in meaningful advances for Afghanistan and its region. Efforts to seek cooperation to spur economic development have been attractive in principal, but as attractive as this approach has been, local interests and obstacles have kept it from fruition. Challenges in Central Asia and the India-Pakistan historic animosity have all played important roles as seemingly intractable obstacles. How can this logjam be broken, in order to have the nations of the region attain a new level of potential? Could the role of new actors and the emergence of a new set of opportunities significantly transform the region with benefits accruing to all?

Economic Integration

Although economic integration has been generally on the rise in Asia, it has been particularly low among the nations of Central Asia as well as between South and Central Asia. The story is different for continental Asia as a whole. In fact, the Asian Development Bank (ADB) indicates that Asia's trade openness and integration actually surpasses the rest of the world today as it estimates that Asia's trade share could account for more than 50% of global trade by 2050. In sharp contrast to this significant advance in economic integration, intra-regional trade in Central Asia is among the lowest in any region of the world with intra-regional trade making up only about 5% of total trade compared to 65% in the EU.[1] This is a distinctive characteristic of the degree of economic integration in Central Asia. Integration within the region is also staggeringly low for Pakistan and, to some extent, also for India. According to the World Bank, Pakistan trades very little within its own region and accounts for less than half a percent of India's trade.[2] And despite the size of India's economy, its trading activity with the countries of Central Asia makes up a fraction of one percent of its total trade. On the other hand, Central Asia has the natural resources which South Asia's growing economies desperately need. Thus, closer integration would create regional benefit not attainable otherwise. However, at present, there is a notable lack of economic integration between South Asia and Central Asia.

1. Asian Development Bank, "Progress in Regional Cooperation and Integration", July 2012
2. "*Pak-India trade still a fraction of $40 billion potential*", The International Herald Tribune, The Express, March 13, 2012

The Fading Value of Regional Arrangements

While challenges remain in the region, simply being part of a regional scheme or organisation to promote integration does not necessarily create unencumbered sustainable economic growth or improvements in trade transparency, governance and stability. What is now irrevocably changing the playing field, is China's entry in the region. Beijing's investments, along both economic and political dimensions, are allowing for a deeply transformative process in the very nature of the region's economic and geopolitical structures, and are producing faster economic integration. As examined in detail in this paper, investment in road and rail networks increases the means of production and allows for the creation of new enterprises, jobs and innovation. The mere unlocking of the otherwise captured economies in Central Asia, for instance, is itself profoundly transformational in creating regional integration. In the process, it also presents a country like Afghanistan with the prospect of acting as the necessary land bridge between the suppliers and consumers of energy, in addition to creating trade corridors linking Iran eastward to China where it can find new markets never attained previously. In this sense, economics seemingly in search of self-interest, is not merely dictating political advancement, but offering to unlock greater regional potentials as a consequence.

Objectively demonstrating benefits in economic integration emanating directly from the formation of regional trade and economic agreements is problematic at best. Although the EU's economic market and the benefits of the North American Free Trade Association (NAFTA) are undeniable, growth in trade among these nations was mostly from closer bilateral arrangements rather than as a result of regional schemes. In contrast, in many parts of the globe, a proliferation of regional arrangements, the so-called "spaghetti bowl" of organisations, have led to less effective advances and indeed have at times hindered regional economic integration.

Another argument for pursuing the route of regional organisations is based on the assumption that they will not only integrate markets, but also bring about added transparency, governance and more accountable institutions. However, contrary to this assumption, regional arrangements in Central Asia have typically strengthened and promoted the powers of those in closer control of the means of economic production. On paper the ECO,, created in 1964, has the potential of creating great opportunities, especially in connecting Central Asia to South Asia. In practice, though, the effectiveness of the organisation in producing either economic integration or in building transparent and accountable institutions within its members has been very limited. In a study presenting the relationship between regional arrangements and factors such as institutional building, accountability, political stability, rule of law and control over corruption, Schweicker et al., in a regression analysis, show that being a member of ECO actually has a slightly negative impact on these measures of governance and transparency.[3] The explanation may point to the fact that many regional arrangements, being nothing than more diplomatic support for autocratic regimes, may deepen elite entrenchment, rather than create integration between nations.

3. Schweickert, Rainer, Melnykovska, Inna and Plamper, Hedwig: External Drivers of Institutional Change in Central Asia – Regional Integration Schemes and the Role of Russia and China,, March 2012, Kiel Institute for the World Economy, Kiel, Germany

More importantly, the study by Schweicker et al. also reveals a phenomenon not readily expected. When testing total imports and exports by Central Asian economies, as trade is heavily weighted with external countries, notably with China, it was discovered that increases in trade activities had a positive effect on overall governance. This was explained by the fact that especially smaller scale trade with China may create an impetus for a bottom-up improvement in institutional building, as individual traders will contribute to eroding the power basis of more autocratic regimes. This may not necessary be by design as China's large scale investments have certainly benefited the elite of the nations in question. While wider conclusions cannot be drawn for all countries and all regional arrangements, the data clearly demonstrates that improved trade activity between say, Kyrgyzstan, Kazakhstan and Tajikistan and China, has contributed, perhaps unknowingly, to incremental improvements in bottom-up institutional improvements. It is important as China is becoming the major economic force in the region - and unlike other attempts reviewed here - it is indeed now poised to act as the leading actor in re-shaping the economic integration plane in significant ways. The section on China later on in this paper reviews the tenets of such a premise, including the nature and evolution of, and the degree of integration in, the region.

2. Europe & the United States: Regional Presence

After the breakup of the Soviet Union, the United States has sought to extend its influence over the greater region of Central and South Asia, to address concerns over its security interests and to assure its links with the nations of the region. The US influence in the region has been chiefly defined by its military presence in Afghanistan, where economic strategies to stabilize the country have been particularly lacking. As the North Atlantic Treaty Organisation (NATO) is now withdrawing its troops and as Afghanistan's economic sustainability is in question, the stability of the region is not assured. Two noteworthy examples to best illustrate the shortcomings of strategies seeking economic development as a stabilising factor are particularly revealing in demonstrating the value of the models pursued by the US and NATO members, and stand in sharp contrast with regional approaches pursued by China. One such example is the establishment of the Northern Distribution Network (NDN); and the other is the New Silk Road Initiative.

The NDN

In 2008, the US established the Northern Distribution Network (NDN) to help supply NATO troops with non-lethal material in Afghanistan via air, rail, and roads and to connect Eurasian routes to Central Asian and finally to reach Afghanistan. One of its important aspects has been that the vast majority of the materials shipped through the network, more than 85%, has been shipped by commercial carriers. As such, the massive NDN network was able to connect Afghanistan with far away locations via transport routes starting as far as the port of Riga in northern Europe. This is a *de facto* "silk road", with potential longer-lasting economic, security and political merit. The NDN, although first designed to be at the service of military exigencies, represented certain commercial and economic advantages to be leveraged, due to its proven extensive logistics and transport capabilities. However, the US and its NATO allies have largely missed the opportunity to help utilise what the NDN could have offered, and to integrate those aspects, which might have allowed the Allies to develop and retain a more sustainable approach to economic activity in Afghanistan and its region.

The "New Silk Road" Initiative & the Istanbul Process

In 2011, the US began promoting the idea of a "New Silk Road Strategy" to help advance regional trade, economic cooperation and transportation and to help assure sustainable economic development in Afghanistan. However, eleven years after first intervening in Afghanistan, introducing such an idea could only be seen as an attempt at a rushed "exit strategy." This approach was presented as part of the "Heart of Asia" process and was initiated at the Istanbul conference in November 2011, which aimed at promoting regional cooperation between Afghanistan and its neighbours.

The New Silk Road initiative and the Istanbul process demonstrate the clear difference in approach and capabilities when it comes to the fast changing dynamics of the region. It further illustrates the contrast between the US and European nations and how China operates within this region. To begin with, as much as the concept of the New Silk Road is not new (but deserving of attention), for it to be realised, it has to be funded. Yet, the US has instead positioned itself not as a facilitator of financing but rather, as a political broker to push for private sector financing and from organisations such as the International Finance Corporation (IFC), ADB and others. In addition, promoting free trade as a concept is attractive but much more challenging once the stark realities of internal and regional political rivalries among Central Asian countries are understood. As a result, participants such as Russia, Pakistan, Iran, Central Asian nations and even India raised serious objections about the initiative.

In addition to the lack of financial incentives to advance the tenets of the initiative's economic cooperation approach, the political incentives were also missing. Again, in the absence of pre-developed demarches to create political trust among Afghanistan's neighbours, the US faced increasingly challenging obstacles to pursue such approaches – despite the urgency of the exit strategy looming now. The failures of these initiatives are grounded on the premise that the EU and, especially the US, have not been able to establish sufficient influence and/or adequate trust among the key participants in the region; nor have they been close enough to the changing realities of each nation and the evolving dynamics among them to succeed in achieving the desired objectives. Importantly, the US needed to recognise that while Afghanistan is important to many of its neighbours, its centrality often derives from how it impacts specific views and shifting strategic concerns in the region. As will be described below, in forging closer relations with the nations of the region, China is positioning itself to follow an alternative path and is now able to exert an increasing level of influence in the region.

Europe's Interests

At the turn of the 21st century, Europe was poised to uphold its status as the largest trading block in the world and to take a leading role in shaping the structure of the upcoming multi-polar world order. The EU's own economic integration was arguably one of the most successful regional achievements of the 20th century. As Europe has been held back by the depth of the 2008 financial crisis, Asia's growth has continued and is beginning to reshape the global economic balance. In this respect, trade and energy ties with the emerging nations of Asia are more than ever an imperative for EU nations. China stands out in this context, because its relations with Europe are now becoming the vital link to Asia. European efforts to build stronger ties with India and other nations in Asia are also increasing. Europe's presence in Afghanistan, directly and with NATO, and on both the security and development dimension, have been an important demonstration of EU foreign policy engagements in Asia. When it comes to Central Asia, the EU has been more tepid. Although its engagement in Central Asia represents the nature, diversity and complexity of its member nations, the EU has not treated Central Asia as a strategic realm. Furthermore, Europe's relations in Central Asia are also marked by a certain dissonance. Its desires to promote human rights, democracy and good governance can sometimes be at odds with its interests in the areas of security and its needs for energy supplies.

At the same time, access to Central Asia provides an alternative energy source for Europe, as it is heavily dependent on Russia. Russia now represents about a third of Europe's oil imports and over 40% if its gas imports. By contrast, EU members import about 3.5% of their fuel from Central Asia. However, Russia has not always been a reliable energy partner, as it turned off its gas supply to Europe due to the events in the Ukraine. Importantly, Russia has been seeking to diversify its own energy supplies by launching massive efforts to shift its attention away from Europe and going east to Asia, including supplying China's booming economy. In fact, the International Energy Agency (IEA) forecasts that although Europe's demand for gas will increase by 13% between 2008 and 2035, China's demand will increase by a whopping 360% during the same period.[4] When it comes to trade too, the EU remains quite absent from the regions of Central Asia and South Asia. Total trade between the EU and Central Asia remains one of the lowest, taking any comparison of two regions trading with each other.

On the whole, perhaps due to the complexity and diverse national interests within Europe or the sheer multiplicity of various European actors, no significant European grand strategy has emerged for the region of Central and South Asia. This lack of clarity and indeed vagueness in the approach by Europe towards this region is quite surprising, especially as the multi-polar world is now increasingly defined by the US and Asian giants, seemingly leaving the EU behind. While Europe has attempted to keep good relations with India, for example, the rest of the region, notably Central Asia, has been viewed by Brussels as non-vital to its global geostrategic position - and very much unlike its historic ties from the colonial days with regions in Africa or in Latin America. On the other hand, it can be argued that Europe may have a higher strategic interest in Central Asia, than does the United States. Not only does Europe need closer ties to gain the advantage of accessing the region's energy resources, but it

4. The New Great Game in Central Asia,. The European Council on Foreign Relations, Asia Centre 2011

also needs to mitigate its dependence on other sources such as Russia. On the political and security fronts, Brussels has not offered a security strategy for the region worthy of the potential needs and interests of European nations. In this respect, the EU has continued to work through existing channels such as NATO and the Organisation for Security and Cooperation in Europe (OSCE), remaining a participant, rather than leading the agenda. Although Europe does need to improve its own stance in the region of Central Asia, it may be much more of a challenge now than a decade ago. This is due to the fact that Brussels has to now contend with the global geopolitical change emanating from China's global rise. Indeed, China's ascendance will be nothing short of transformational on how Europe interacts with Asia as a whole, but by consequence, also with the US and with Russia, too.

3. The Centrality of Afghanistan

Both European nations and the US have had a heavy presence in Afghanistan for over 11 years. Afghanistan now ranks as the US' longest war, surpassing the Vietnam War. NATO's presence in Afghanistan has been defining, as it is its first engagement outside its traditional sphere. The US has now spent over 20 times more on the Afghanistan war as it did for the Marshall Plan to help rebuild Europe. Yet, after a decade of efforts by NATO countries, stability has not been achieved in Afghanistan and its region.

Clearly, military strategies and their oversized spending have not been sufficient to secure Afghanistan's stability and prosperity. Most of the achievements are fragile at best and may evaporate if the international community's focus is lost. On the security front, despite the early ousting of the Taliban, insecurity is rampant in many areas, especially along the border with Pakistan. On the development front, international aid has been ineffective at best, despite unprecedented levels of spending (surpassing $100 billion). The model of development intervention applied and practised in Afghanistan has now demonstrated one undeniable fact: that the international development aid mechanism is broken. Only a fraction of the funds allocated to the reconstruction effort reach the population in Afghanistan. As a result, a critical shortcoming has been the neglect of a deliberate approach to economic development as central to achieving stability both in Afghanistan and the region. Given the lack of success of the strategies thus far and the extreme ineffectiveness of the reconstruction models pursed, alternative strategies, inclusive of the role of emerging regional powers, need to be re-evaluated to help stabilise one of the most volatile regions of the world.

NATO and the International Security Assistance Forces (ISAF) have now defined a schedule of troop withdrawal from Afghanistan to be completed by the end of 2014. This is predicated on a transition plan to hand responsibility to the Afghan security forces. However, stability is still in question as the transition plan is dependent on a nascent Afghan force being able to secure the country's borders, as well as to handle regional threats. At the same time, as confirmed by a recent World Bank study (May 2012), a precipitous withdrawal from the country could prompt an economic collapse as 90% of the $17.1 billion current Afghan national budget comes from foreign assistance.[5] The rapid troop withdrawal itself

5. Afghanistan in Transition: Looking Beyond 2014, The World Bank, May 2012

will change the economic picture in the short run in Afghanistan. In the long run, without the foundations of sustainable economic growth based on local means of production and efforts of integrating the country within its regional root, a sustained stability cannot be assured.

The Emergence of an Unprecedented Regional Supply-Demand Equation

As will be examined in more detail in the following section, the economies of the Central Asian countries are held back by characteristics specific to landlocked countries. Heavy reliance on commodity-based economies earning below market prices for natural resources stunts the growth of their economies. However, Afghanistan is particularly well placed to help unlock a new potential in the region. There is indeed an unprecedented economic supply and demand equation emerging in the wider region with Afghanistan at its centre, which might be termed a "*New Supply-Demand Equation at the Heart of Asia.*" This equation has never manifested itself in the region's history and at the scale seen today, and has wide consequences beyond economics alone.

More specifically, the equation refers to:

a. The existing underdeveloped economic structures in the Central Asian countries who are in turn endowed with great natural resources *[the supply factor];* and
b. The unprecedented demand for energy from India and Pakistan and principally from China which cannot sustain its economic growth without a massive increase in the use of natural resources such as oil and gas *[the demand factor]*.

This supply and demand equation directly relates to economic factors now under way in the region which are not only massive but quite unique in both their regional characteristics and their potential global impact. It then follows that an opening of new markets and new regional exchange patterns via Afghanistan would significantly alter the actual foundations of the structures of the economies in the region. As China and India are looking for sources of energy in far away locations, only a few hundred miles away from India and bordering China are large reserves of hydrocarbons in Central Asia as well as in Iran. Afghanistan is the natural conduit at the heart of this unprecedented demand and supply equation.

The Central Asia-South Asia Corridor & Afghanistan as its Catalyst

According to the World Economic Forum's Global Competitiveness Report 2012,[6] the quality of infrastructure in Central Asian countries remains the lowest compared to other regions. In addition, the costs of importing and exporting goods in the region remain high due to weak and less than effective trade facilitations. A recent ADB report shows that export and import costs in 2011 for East Asian countries were 7.2% and 7.6% respectively. However, for Central Asian countries, for the same period, they were a staggering 41.4% and 64.8%, respectively.[7] The building of road and transport corridors across Afghanistan would allow for better economic integration between Central and South Asia.

6. Xavier Sala-i-Martin, Professor, World Economic Forum's Global Competitiveness Report 2012, World Economic Forum, Centre for Global Competitiveness and Performance, Geneva, 2011
7. Asian Development Bank, Progress in Regional Cooperation and Integration, July 2012

The ADB has recommended the building of 52 road corridors through Afghanistan connecting Tajikistan, Uzbekistan, and Turkmenistan with five seaports in Pakistan and Iran.[8] In its estimates, as a result, overall trade could increase by as much as 15%, or more than $12 billion, for the entire region.

The potential benefits of these corridors are immediately significant to both Afghanistan and the Central Asian countries, as Afghanistan's exports would increase by 202% over the five years after construction. This would directly impact Afghanistan's GDP, adding an extra 4.1% to GDP growth and would create 4.1 million permanent jobs. The construction of the corridors is estimated to also increase total regional trade by 160% and to increase the combined GDP of the participant countries in the region by over 5% per year. Thus, if it were realised, Afghanistan has a significant potential to be a facilitator of economic growth and integration in the region.

Economic Integration via Energy & Mineral Development Corridors

Afghanistan has also the added potential to act as a pivotal country for both the trading and exporting of electric power. Kyrgyzstan and Tajikistan are building excess capacity for electric production to bring additional revenues from exports. Yet, if they cannot find export markets, their large hydro-electric stations would end up proving costly. Those countries endowed with power generation due to their topographies could finally unshackle their economies from dependence on non-market Russian-provided prices and seek new markets in South Asia, via Afghanistan as the catalyst nation. Both Kyrgyzstan and Tajikistan saw that they could free themselves from dependence on northern economic models and instead obtain market prices, by opening up their economies and exporting their excess electricity production. Afghanistan is thus well placed to benefit, as its natural centrality is now firmly based on the changing regional economic equation emerging as a result of broader global economic factors and is not dependent on simple political demarches by single players.

In 2007, the United States Geological Survey (USGS) announced the discovery of a number of important mineral mines in Afghanistan and has in effect put Afghanistan on the world map, for the first time, when it comes to natural resources. The extent and diversity of the discoveries can truly be transformative for Afghanistan and its region. In 2010, it was estimated that the value of these mineral reserves could reach between $1 trillion and $3 trillion. If explored effectively, this could be a "game-changer" for Afghanistan as the country could become one of the world's largest producers of copper and iron ore. In addition to the mineral mines, the USGS has also announced the discovery of up to 1.9 billion barrels of oil, especially along the northern borders of the country in the Amu Darya and Afghan-Tajik Basins.[9] For comparison purposes, according to BP, Equatorial Guinea has proven reserves of 1.7 billion barrels and produces about 250,000 barrels of crude a day. With oil prices around $100 a barrel, once Afghanistan can produce about 250,000 bpd, it can earn about $9.1 billion a year in revenues. This is significant, since with the country's GDP being about $20 billion, these revenues alone would represent about half of its total GDP.

8. Asian Development Bank (Mar 2005), Second Ministerial Conference Report on the Economic Impact of Central-South Asian Road Corridors
9. US Geological Survey (USGS), USGS Projects in Afghanistan, http://afghanistan.cr.usgs.gov/minerals

Recent interest by international firms in helping to develop these mines has been high, especially due to the fact the security is generally better in the north of the country. For instance, a consortium of six Indian companies, including four state-owned ones, has tendered its bids for a copper mine project in Afghanistan's Shaida area, near its western city of Herat. The Indian firms are interested in the exploration of these mines for their copper and gold deposits. In July 2012, Exxon Mobil submitted its expression of interest to participate in the Afghan-Tajik Basin oil and gas tender, holding 1 billion barrels of oil. Six other firms are also bidding for the same project (from India, Pakistan, Turkey, Brazil, and the United Arab Emirates (UAE).[10] Exxon faces stiff competition from other firms, but even Exxon will not be able to offer the type of incentives to the Afghan government that China can offer. In fact, as hard as it is for Exxon to compete with other firms, it would be nearly impossible for it to compete with a Chinese firm, as the latter's approach often includes a package of investment that goes well beyond the mine in question.

In fact, the China National Petroleum Company already won the contract for exploring both oil and gas fields in blocks in the Amu Darya Basin in 2011. According to USGS, in addition to oil, it has estimated that the Amu Darya Basin holds over 52 trillion cubic feet (1.5 trillion cubic meters) of natural gas.[11] Again, at these levels, the reserves are significant as they represent 10 times more than Tajikistan, Kyrgyzstan and Turkey. In addition, in 2007, China made a significant commitment to Afghanistan when it agreed to invest a whopping $3.5 billion in Afghanistan's Aynak Copper Mines. This was the single largest investment in Afghanistan's history. The Aynak copper deposit was estimated to be the second largest unexplored deposit in the world and has the potential to generate as much as $88 billion in wealth over its 30 year span.[12] In addition to the initial payment of $800 million for extraction rights by the China Metallurgical Group Corporation (the Chinese state-owned winner of the contract), the production from the mine is expected to add a revenue stream of about $400 million a year, for the next 30 years, to the Afghan state.[13] This represents about a third of the current revenues of the Afghan Government.

The Chinese investment in the Aynak mines is also important from an additional perspective, as it points to Beijing's approach to a packaged economic arrangement, much like in other countries. The agreement also calls for the Chinese to invest in the development of a series of related infrastructure projects, including, power plants, roads and railroad lines. As a result, the construction of a 400 megawatt electricity plant is planned; the laying out of rail lines to transport the copper, including a rail line that would connect to the Uzbek border and other lines to connect to Pakistan; and additional road and transport projects. Accordingly, if undertaken under these provisions, the Aynak mine is expected to generate about 10,000 direct jobs and an additional 40,000 employment related to the broader infrastructure development projects. The discovery of these riches offers Afghanistan - for the first time - a golden opportunity to create and expand economic growth and sustainability: beyond 2014, according to World Bank projections, the country will need around $6 billion to $7 billion of foreign aid each year in order to grow its economy.[14]

To confirm its commitment to Afghanistan further and to broadcast its intention, on September 22nd 2012, China signed security and

10. "*As Exxon Mobil Weighs Oil Bid, Afghans Move Closer to a Foreign Investment Goal*", Matthew Rosenberg, New York Times, July 5, 2012

11. Ibid.

12. "*Uneasy Engagement China Willing to Spend Big on Afghan Commerce*", Michael Wines, The New York Times, December 30, 2009

13. Minerals in Afghanistan: The Aynak Copper Deposit, The Ministry of Mines and Industry, Kabul, Afghanistan, accessed July 28, 2012, http://www.bgs.ac.uk/afghan-minerals/docs/aynak_a4.pdf

14. Afghanistan in Transition: Looking Beyond2014, The World Bank, May 2012 economic agreements with Afghanistan during a rare trip to Kabul by a top Chinese official. Mr Zhou Yongkang, Beijing's domestic security chief and a member of its Politburo Standing Committee, who has also overseen a crackdown on unrest in the Chinese Muslim-populated Xinjiang region bordering Afghanistan, represented the first visit to Afghanistan by a senior Chinese leader since 1966. True to its foreign policy imperative globally, China has not sought military involvement in Afghanistan, however this agreement on advancing security and economic cooperation included an arrangement for China to help "train, fund and equip Afghan police."[15] Interestingly, in addition to visiting Afghanistan, Zhou was also scheduled to travel to Turkmenistan following a visit to Singapore. This is another demonstration of Beijing's continuing commitment to the region as whole and reflective of China's growing influence as a world power, as it now contemplates the withdrawal of NATO forces from Afghanistan.

The Trials & Tribulations of the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI)

Building energy pipelines through Afghanistan is not a novel idea.

In fact, an initial idea for the Trans-Afghan Pipeline was conceived in the early 1990s when Turkmenistan along with international gas and oil corporations desired to build a pipeline through Afghanistan going south from Turkmenistan. After the ousting of the Taliban, in 2002, the Asian Development Bank revived the idea and conducted a feasibility study to establish the TAPI pipeline. The project's goals were to export up to 33 billion cubic meters (bcm) of natural gas per year via a 1,800-kilometre long pipeline, from Turkmenistan to Afghanistan, Pakistan, and finally reaching India. In 2008, the total project costs were estimated at $7.6 billion.[16] The revenues from the pipeline were projected to be as much as $1.4 billion per year in transit fees for Afghanistan. India and Pakistan would receive 14 bcm per year each which amounted to about 15% of Pakistan's total annual energy consumption and about 1.5% of India's.[17] As originally conceived, TAPI presented an opportunity for regional cooperation with Afghanistan as the epicentre, linking the economies of the four countries together and with wider regional implications and fitting into the desires of international participants under the framework of the CAREC initiative. Although momentum has been lacking in recent years, TAPI received a new shot in the arm when in June 2012, India's GAIL and Pakistan's Inter State Gas System signed gas purchases and sales agreements with Turkmenistan to supply TAPI with the flow of energy from Central Asia. Earlier, in April 2012, Turkmenistan and Pakistan signed agreements to solidify their discussions and have TAPI, when built, transport gas from Turkmenistan via Afghanistan to Multan in Pakistan, and then to the Indian township of Fazilka. TAPI has always been a challenge due to the security situation in Afghanistan and because the pipeline would traverse from Afghanistan's east to its south, the typical hotbed of the Taliban. However, in a geostrategic move worthy of the best chess player in the neighborhood, and as further described below, a new twist initiated by Beijing, proposing a pipeline from Turkmenistan to China via Afghanistan, may eventually put the last nail in the TAPI's coffin and spell its demise.

15. "*Top China official visits Afghanistan, signs security deal*", Reuters, September 23, 2012, http://www.euronews.com/newswires/1666818-top-china-official-visits-afghanistan-signs-security-deal/
16. Asian Development Bank, Turkmenistan–Afghanistan–Pakistan–India Natural Gas Pipeline Project, Technical Assistance Report, May 2012
17. Foster, John, " *Afghanistan, the TAPI Pipeline, and Energy Geopolitics*" Journal of Energy Security, March 23, 2010

Proposed TAPI Gas Pipeline

Source: Canadian Centre for Policy Alternatives

Central and South Asia Pipelines – A Regional View

Source: Canadian Centre for Policy Alternatives*

*The Canadian Centre for Policy Alternatives, "A Pipeline Through A Troubled Land", June 19, 2008, Ottawa, Canada

4. Challenges & Potentials in Pakistan & Central Asia

I. Pakistan's Challenges

As much as the challenges of Afghanistan are extreme, they may pale with the dire situation of Pakistan. The differences between the two countries could not be more striking. Pakistan's population is five times more than Afghanistan's. Pakistan is one of the world's seven nations with nuclear weapons and is situated next door to India, also a nuclear nation. The end of the Cold War presented an historic opportunity in the region, engendering economic progress and reform, and sparking the burgeoning of new industries, notably in high-tech. This era of globalisation, with the explosion of new regional trade and new exchanges between countries, marking a new dawn for Asia, has in effect, passed Pakistan by. The country's economic growth has been the lowest in South Asia. As detailed in the table below, according to the World Bank, Pakistan's average GDP growth for years 2007 to 2011 was 3.5%. GDP growth for the same period was 6.2% for Bangladesh and 7.7% for India.[18] Pakistan's rate of inflation at 11% in 2011 is the highest in South Asia. Its agricultural sector has also been lagging and was dealt an additional blow with the series of floods in recent years, which devastated parts of the country.

GDP Growth in South Asia						
Pakistan	5.7	1.6	3.6	4.1	2.4	3.5
Bangladesh	6.4	6.2	5.7	6.1	6.7	6.2
India	9.8	3.9	8.2	9.6	6.9	7.7
Pakistan's GDP Growth Difference (2007-2011)						
With Bangladesh	2.7					
With India	4.2					

Source: World Development Indicators

At the same time, daily electricity outages are negatively affecting growth and crippling small businesses, which are vital to its economy. Pakistan's Planning Commission estimates that the country's energy shortfall has cost the country 2 to 3 percentage points in GDP growth in the past year. The credit rating agency Moody's cut Pakistan's sovereign credit rating deeper in the junk credit category in mid 2012 citing concerns about the country's ability to service its growing debt, political uncertainty and inflation. In September 2012, the World Economic Forum's Global Competitiveness Report ranked Pakistan among the bottom 20 of 144 economies in the world.[19]

Economic integration within the region is particularly a concern in the case of Pakistan, as the country does not trade very much within its own region. According to the World Bank the bulk of its trading is with far off countries such as the United Kingdom, the Unites States, Germany and the Arabian Gulf area. Although trading with countries situated at

18. World Development Indicators, The World Bank, Washington DC, accessed July 29, 2012
19. Xavier Sala-i-Martin, Professor, World Economic Forum's Global Competitiveness Report 2012, World Economic Forum., Centre for Global Competitiveness and Performance, Geneva, 2011

longer distances is also beneficial, not trading enough with neighbouring countries may explain part of Pakistan's stunted economic growth. This is one of Pakistan's greatest disadvantages, keeping its economic growth below its economic potential. Pakistan's trade with Afghanistan has been growing over the past decade, and is now just under $2 billion. Interestingly, although some trading is done via the UAE, trade between Pakistan and India, the giant in South Asia, is also about $2.5 billion a year. In fact, bilateral trade with India is well below what it could be. In fact, trade with India accounts for only about 3% of Pakistan's trade with all countries[20] and Pakistan accounts for less than half a percent of India's trade. However, in a recent study, when trade is considered under a gravity model which estimates potential bilateral trade rather than actual trade, assuming effective economic integration, it was projected that bilateral trade between India and Pakistan could reach over $40 billion a year.[21] That would be over 20 times the current level of trade between these two neighbours. Seeking to increase economic integration and trade openness between the two countries will not only help alleviate Pakistan's fragile economy, open interactions between the two, spur regional activity for small business, but also would unlock a whole new plane of economic activity in South Asia, which could in turn benefit Afghanistan and other nations in the region.

II. China: The Importance of Gwadar for Regional Reach

Pakistan and China are long-standing allies and enjoy what can be characterised best as a sui generis relationship. China has had over 60 years of close relations with Pakistan on the political, military and economic fronts. It has been Pakistan's principal provider of nuclear and conventional weapons and technology and its principal arms supplier over this time. Furthermore, China has steadily expanded its economic ties with Pakistan as it has helped finance over two hundred projects in the country, including the expansion and improvement of the Karakoram Highway, the Thar coal project, the Bhasha Dam, and the Gwadar deep sea port construction on the coast of Pakistan’s Balochistan province. Gwadar has emerged as a vital strategic move by China and has raised concerns by others, notably India, which believes China may eye its use as a deep water port for the expansion of its naval power in the Indian Ocean. China signed the Gwadar agreement just four months after the US intervention in Afghanistan, in 2001. In addition, Beijing has also invested over $200 million into building coastal highways that will connect Gwadar with the port of Karachi.

China also aims to help Pakistan connect its economy with Central Asia by land routes, via the construction of additional roads from the Pakistani border town of Chaman in Balochistan to Qandahar in Afghanistan. The thinking is that the Gwadar port will connect the region via the Karakoram Highway in Pakistan to its border in China's Xinjiang region. In this sense, Beijing is attempting to integrate the Pakistani economy into its own commercial and trade activities, and at the same time opening access to Central Asia via land routes. The design and execution of this plan has also addressed China's continuing concern to seek control over its majority Muslim province in Xinjiang via massive investments in the region as a whole, including in Afghanistan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan and Kazakhstan.

20. Trade Comparison, Pakistan's Trade 2012, Research & Development Cell, PRGIEA, Lahore, Pakistan, March 3, 2012

21. Khan , Mohsin S., India-Pakistan Trade: A Roadmap for Enhancing Economic Relations, Peterson Institute for International Economics, July 2009

Under an agreement with Pakistan, Singapore's PSA International has been managing the port of Gwadar for the past five years, though it is reportedly recently preparing to leave, due to certain disagreements. As the subsequent phases of construction for the port ran into uncertainties, China's commitment to its success was questioned. However, on August 30th 2012, Pakistan announced that it will turn over the management of the port to a Chinese company.[22] Beijing's return is indeed a watershed in the region as this would be China's largest commitment to Pakistan (other than the Karakoram Highway). It also confirms China's desire to build the oil and gas pipeline from the port all the way to its own border, across Pakistani territory, solidifying its foothold in the Arabian Sea and the Indian Ocean, where it has considerable strategic interest both in helping address its energy security and in obtaining broader influence in the region.

III. Central Asia: Under-Trading & Regional Potential

Central Asian countries share many common characteristics, including significant historic, cultural, social, and ethnic ties. They also share geographic characteristics, such as challenging topography and lack of direct access to the sea, as all countries in the region are landlocked. Although there has been some progress since the break-up of the Soviet Union, improvements on governance, civic society and democratic institutions have been uneven and lacking. Despite advances in the past two decades, the countries of Central Asia are burdened by their Soviet style economic legacies, the dominance of primary commodities, the lack of effective trade facilities impeding regional trade, and in many cases, wholly underperforming transport infrastructures, which have all kept economic growth at paces well below their potential. The rise of China as the main factor in the region and the potential of Afghanistan may both now contribute to shifting the geopolitical plane and unlocking Central Asia's potential.

Central Asia's daunting limitations have resulted in creating serious and lasting economic challenges. In particular, trade among neighbouring countries makes up only a fraction of the region's total trade. In addition, Central Asian countries "under-trade" with South and East Asia compared to their actual trade potential. By regional standards, trade among Central Asia countries is remarkably stunted compared to intra-trade among countries in other regions, as it stands at 5.3% of total trade while it is 36% among East Asian countries.[23] In economic modelling, the so-called "gravity model" is used to assess the potential for trade activity and as a basis for comparison with actual trade in estimating the extent of lost trade. For example, under the gravity model, Ian Babetsk found that, adjusting for relative economic size and distances, a full decade after being free from the Soviet Union, Uzbekistan, Kazakhstan and Kyrgyzstan traded at levels considerably below their potentials compared to EU countries. Trade also remains below its potential with other regions. Elborgh-Woytek found that Central Asian countries actual trade with the EU was three times below their potential for trade.[24] Although infrastructure quality in Central Asian countries is far behind that of East Asia, even more striking is the lack of foreign direct investments (FDI) among the nations of the region. While the share of intraregional FDI inflows in 2008–2009 for Southeast

22. "*Pakistan in talks to hand port to China*", Farhan Bokhari, The Financial Times, August 30, 2012 4:27 pm
23. Asia Development Bank, Progress in Regional Cooperation and Integration, July 2012
24. Babetskii, Ian., Babetskaia-Kukharchuk, Oxana., Raiser, Martin. "How deep is your trade? Transition and international integration in Eastern Europe and the former Soviet Union," Working paper No. 83. European Bank for Reconstruction and Development, London, 2003. And, Elborgh-Woytek, Katrin, "Of Openness and Distance: Trade Developments in the Commonwealth of Independent States, 1993-2002," IMF Working Paper No. 03/207. International Monetary Fund, Washington, DC. 2003, pp. 9-17

Asia and East Asia was 6.3% and 42%, respectively, it was only 0.02% in Central Asia.[25] This is an important indication of the impact of a serious lack of regional economic integration.

Rivalries in Economic and Political Models

Many of the nations in this region have stark disagreements and rivalries, which are in turn being leveraged by external power players to create new in-roads in attempts to secure their strategic interests. External participants have historically pursued their own interests in the region, often at the expense of the regional nations involved. Russia, Europe and the US have sought to advance their interests by attempting to create progress in their own image; and to assure their security concerns, as represented by the latter two's massive presence in nearby Afghanistan. However, as examined earlier, it is clear that Beijing is emerging as the most influential when it comes to leveraging these regional rivalries.

For instance, in relation to Kazakhstan and Uzbekistan, who have pursued two different models of economic development, one is largely based on market oriented policies and the other on continuing to preserve state ownership of most natural resources, as well as controlling price subsidies. Another example is that of the "water wars" in the region, with the water system being intricately tied to both energy security and the security of water supply for all countries involved. Downstream countries, Uzbekistan, Turkmenistan and parts of Kazakhstan, where water is vital to agricultural production, are concerned about upstream providers, Tajikistan and Kyrgyzstan. In turn, both Tajikistan and Kyrgyzstan seek to use their water systems to produce energy for domestic use and increasingly for the purpose of exporting. These rivalries are not just stories from the past. On September 7 2012, while on a visit to Kazakhstan's capital, President Islam Karimov of Uzbekistan has in fact re-iterated calls against neighboring Kyrgyzstan and Tajikistan, warning that their efforts to build hydroelectric power stations on rivers upstream may spark more than neighborhood spats.[26] External powers need to understand the particularity of each country in the region, to best advance their interests. In this sense, as evidenced by their growing close political and commercial ties forged in the past decade, no other power than China is in a better position, not only to link the region together, but to best exert its influent over its geopolitics.

IV. Russia's Fading Influence

In addition to the lack of trust between the countries of Central Asia, and despite the historic ties still binding the former republics to Russia, tensions remain - and in certain cases have increased over time - with Moscow. For example, Turkmenistan resisted participating in NATO's northern supply routes for Afghanistan via Russia as it remained distrustful of Russia's desire to dominate its transport corridors. Russia's pursuit of the Collective Security Treaty Organization (CSTO) is increasingly seen as creating competition in the region, rather than fostering agreements, and as having the purpose of Russia acting as an ultimate provider of security. In the same vein, Uzbekistan's relations

25. Asia Development Bank, Progress in Regional Cooperation and Integration, July 2012

26. "*Uzbekistan Leader Warns of Water Wars in Central Asia*", Eurasianet.org, September 7, 2012 with Russia have been rocky too. Even though it had a leadership role in it, Uzbekistan left the CSTO to seek closer ties with NATO.

Additionally, one of the important failures in Central Asia is the lack of any regional mechanism allowing effective cooperation and economic integration especially in the energy and trade sectors with Russia. The great links binding Russia to the region were not leveraged or improved to facilitate new frameworks addressing the needs of these economies as the 21st century arrived. This is partly Russia's shortcoming: however, it is also a manifestation of Moscow's lack of ultimate control over the extension of influence in a world with significant new emerging powers. For instance, in the gas sectors, Russia has been busy trying to play off Central Asian nations against one other, to extract maximum profit for its energy conglomerates. Bilateral agreements, often putting other nations at a disadvantage, have kept gas price agreements artificial and unsustainable compared with world market requirements. However, Russia has not been successful in engineering greater influence over the countries of Central Asia now conscious of their new potential.

The fact that Central Asia's structural characteristics are keeping its prospects from being realised (for example, trade potential is much higher than actual trade) reveals one of the most substantial dormant assets still to be leveraged in the region. As mentioned earlier, although there have been attempts on the international level to help resolve these challenges, they have hitherto lacked effectiveness. The solution may not be easily reached, since it may now be increasingly dependent on the desire by the nations in the region to connect to outside markets. In fact, the new geopolitical shift in Central Asia can now be seen under the umbrella of an emerging structure of multi-dimensional foreign policy, essentially based on economic interests and the wishes of each country to increase export revenues. In this sense, despite Russia's historic dominance over gas and other energy infrastructures in the past, these schemes are wearing thin and have provided an opening for the Central Asia states to seek better economic rents. All the Central Asian nations are now engaged in these efforts, with even the smaller countries such as Tajikistan and Kyrgyzstan looking beyond Russia, which itself will now have to compete with Turkey, Europe and the US, but most importantly, also with China. Despite the lack of highly developed governance structures in the region and the pursuit of rent-seeking activities by many of its leaders, it seems that due to China's advances in the region, economics may be beginning to define intra-regional politics in this part of the world.

5. China's Rise

A Global Economic Power

Since beginning its economic reform in 1979 and opening up its markets to foreign trade and investment, China's economic growth has been unprecedented in history. The country's annual gross domestic product (GDP) has increased by 9.9% for 31 years in a row now. By contrast, in the United States, the world's largest economy, GDP growth has averaged 2.8% during the same three decades.[27]

27 *"The celestial economy, by 2030 China's economy could loom as large as Britain's in the 1870s or America's in the 1970s"*, The Economist, September 10, 2011

No other nation of significant size has grown at this rate. In nominal terms, China is now considered the world's second largest economy. However, what lies ahead may be more striking yet and a fact we all have to reckon with. A few years ago, when Goldman Sachs projected that China's GDP would overtake that of the United States by 2027, it took many by surprise. Yet, the International Monetary Fund (IMF), in its World Economic Outlook of April 2011,[28] predicted that China's economy would exceed the size of the US economy by 2016. What is even more striking is that by using purchasing power parity (PPP), a more realistic comparative measure of economies, China's economy may actually already be larger than that of the United States. In fact, the economist Arvind Subramanian has concluded that China's economy has already surpassed the economy of the United States in 2010.[29] If true, for the first time in over 200 years of Western economic dominance, a nation outside of the Western domain will dominate the world economy. This fact should not be taken lightly, since in the case of the US' economic dominance, security and political dominance also followed. Before the US, the same was true for the United Kingdom. If history is a guide, the same may now come true for China. What remains to be seen is what follows next.

China's Geostrategic Interests in Energy Security

China's economic growth is vital to its survival, not only because it has been able to extract over 500 million of its people out of poverty – the greatest number ever in human history – but also because without continued growth, China may face social and political challenges which may risk the country's cohesion and stability. To help sustain its meteoric economic growth, China also recognises that it needs to assure the supply of sufficient energy resources. It thus follows that its massive appetite for energy is a national security imperative. China is now the world's number one consumer of coal, steel and copper. It is mostly responsible for the soaring global prices in oil and commodities and is now second only to the US in terms of oil and electricity consumption. This Chinese phenomenon is a challenge with truly global dimensions. The International Energy Agency (IEA) has stated that China surpassed the US in 2009 as the largest energy consumer nation in the world. Despite vigorous efforts at domestic exploration, the IEA projects that China's oil imports will increase by over 600% by 2030. To place this need for energy in the global context, the IEA has estimated that Chinese demand will represent 40% of the projected increase in total global energy demand.[30] China relies on foreign imports for over 50% of its oil consumption and, as projected by the IEA, this dependence will increase to 70%-80% in just a few years. Already over 80% of China's oil imports come from the Middle East region with 90% of its oil traffic passing through the Straits of Malacca in the Indian Ocean to reach China in the South China Sea.[31] China is all too aware that security for the Straits of Malacca has been provided by US carriers and gunships. Beijing sees its level of energy dependence on foreign sources and on routes it cannot fully control as a strategic risk to the country's growth and social stability. This concern over energy dependence is pushing China to make long-lasting strategic decisions with major security implications, not only for its region, but also for the rest of the world.

28. International Monetary Fund (IMF), in its World Economic Outlook of April 2011, http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx
29. Subramanian, Arvind, Dr., "*The Inevitable Superpower*", Foreign Affairs, September/October 2011
30. International Energy Agency, Beyond the OECD - China, People's Republic of, http://www.iea.org/country/n_country.asp?COUNTRY_CODE=CN
31. "*China's Geostrategic Search for Oil*", John Lee, The Washington Quarterly, Summer 2012, 35:3 pp. 75_92

China as the Dominant Force in the Region

Since the 1980s, Beijing has pursued a periphery policy of fostering closer relations with its neighbours. While at first designed to mitigate fears about Chinaës rise, the strategy also comprised the development of closer economic and security relations. When the Soviet Union collapsed, China was understandably concerned about undue dissipation of authority over nuclear weapons and to mitigate any support that the newly created states might incite in Xingjian's secessionist movement in Western China. Beijing's strategy of engagement in the region seeks to gain ground over Russia; to exert greater influence while it positions itself for NATO's departure from Afghanistan; and to serve its interests vis a vis other large powers, such as India. China helped establish the Shanghai Cooperation Organization (SCO) in 1991, which includes Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan as members, with Afghanistan, India and Pakistan as observers. Through the SCO, Beijing has extended its writ not only over Central Asia, but over the entire region.

With China now the leading economic power in Central Asia, its presence in this region, as in Africa, comprises a hybrid of foreign aid, investment, and short and long-term lending. This assistance began with the signing in April 1996 of wide economic and security agreements with Central Asian economies, where Beijing has engineered unique mixes of economic instruments tailored to the particular needs of each one. In 2006, Chinese firms began the building of two oil and gas pipelines from Kazakhstan and Turkmenistan to China. In 2009, China struck further loans-for-energy deal packages with the energy-rich Kazakhstan and Turkmenistan states, laying the ground for large-scale exploration and production of oil and gas fields. These efforts are similar to the economic ties created in Africa and Latin America, but in this case, they bind vast energy resources from Central Asia eastward to China's borders. Beijing's presence in Central Asia is overwhelming. In Turkmenistan, one the world's largest gas producers, the China National Petroleum Corporation (CNPC) is the only foreign company with an onshore contract for oil and gas. In Kyrgyzstan and Tajikistan (endowed with less oil and gas), Beijing has become the most significant foreign investor and aid provider, focusing on electric power generation and transmission, as well as the development and improvement of roads and rail networks. Indeed, the Export-Import Bank of China is Tajikistan's largest single creditor with holdings of the country's total foreign debt now projected to reach 70%.

In addition, as China seeks to enhance its energy security, it is reducing its vulnerability via a multi-pronged strategy with potentially far-reaching consequences. This is being achieved via both the acquisition of foreign oil and gas fields but also via a series of long-sought infrastructure and pipeline agreements with neighboring countries, to assure steady flows of oil and gas directly to China. To the extent that Beijing is successful in turning countries to become mostly exclusive suppliers, it almost certainly will affect the capacity of world energy markets to respond to shortages with flexibility. China has invested heavily in the Central Asian nations of Kazakhstan and Uzbekistan. Beijing is building power plants in Tajikistan and Kyrgyzstan. And in a significant sign of a shift in the geopolitical landscape, in December 2009, the Chinese President Hu Jintao and his counterparts in Kazakhstan, Uzbekistan and Turkmenistan marked the opening of a new 1,100 mile gas pipeline which runs from Kazakhstan's central Karaganda region to China's northwest Xinjiang region through all three Central Asian states. In fact, the successful start of this gas pipelineis an indication of the seriousness on yet another - even longer - pipeline, the planned 3,000 kilometre project linking the Caspian Sea hydrocarbon deposits to China.

The Turkmenistan Gambit: Displacing Traditional Regional Power

It is important to assess China's presence in the Central Asia region not just in terms of its desire to access energy but as a truly transformational factor in changing the nature of the region's economic potential, one which no other regional or global power is in a position to replicate.

China now acts as the dominant catalyst to unlock the prospects of the Central Asian nations. A perfect example is Turkmenistan, which has never been able to take advantage of more open markets and the ability to diversify the production and sale of its natural resources. Thus far, under the Russian influence, Turkmen gas has been directly sold to Russia's Gazprom, which in turn has been able to re-export it to European markets earning revenues at beneficial market prices. This has relegated Turkmenistan to a subservient status but has also not allowed it to open up its economic potential. In November of 2011, Turkmenistan President Gurbanguly Berdymukhamedov was invited to Beijing where he struck a new deal to supply China with 65 million cubic meters of natural gas a year.[32] This would be about half of China's 2010 total gas consumption. Many saw this deal as a coup by Turkmenistan at the expense of Russia. Indeed, Russia has long sought larger deals to export gas to China. Now with Ashgabat providing this level of supply, it makes Russia's demands more challenging. Many observers stated that Turkmenistan had executed a coup against Russia. However, the actual fact is that this is not a coup by Ashgabat, but a shrewd move by Beijing in restructuring the chess board in Central Asia and in advancing her continued efforts to secure its geopolitical position as a future world power. China's move has also allowed Turkmenistan to seek additional diversification away from Russia and with the European Union, which desires to help build the Trans-Caspian gas pipeline from Turkmenistan to Europe. Even though China may be pursuing its own interests in securing gas delivery to feed its economic growth, what has been revealed for Turkmenistan in this type of arrangement is unique in its developmental history. By this, Turkmenistan not only reduces its dependence on Russia's old ties but, once endowed with both revenues and improved world class infrastructure, it could seek new mechanisms and develop new markets outside of both Russia and China's spheres, without confrontation with either one. Turkmenistan would acquire the ability, should its leaders desire it, to connect to the broader global markets, including South Asia and the Gulf, and in the process create new opportunities for itself and the concerned nations in these new markets. In this respect, China, above all other power players, is viewed as the most important factor in helping create increased regional economic integration.

32. "*China in Deal With Turkmenistan to Boost Gas Supply*", The Wall Street Journal, November 23, 2011

China in Kazakhstan & Tajikistan

The Turkmenistan-Uzbekistan-Kazakhstan-China transit pipeline built to supply China with gas passes through Kazakhstan's territory. Of its total 1,830 kilometres, 1,115 kilometres are in Kazak territory. Kazakhstan is also building a dedicated pipeline addition to export its own gas to China.[33] As such, Kazakhstan is now a major contributor to China's energy security strategy. China's efforts to engage Kazakhstan started with the establishment, in 2007, of a joint venture between Trans-Asia Gas Pipeline, a Chinese firm and Kazakhstan's Kaztransgaz, which is actually a fully-owned subsidiary of China's National Petroleum Corporation and Kazakhstan's national owned firm, KazMunaiGaz. This arrangement is important as it establishes China's firm hold on the Caspian basin, assuring the delivery of its resources eastward and at the expense of others, such as Russia, seeking to access the same resources. In this sense, the geostrategic aspect of these pipelines is far reaching as they leave little to no volume available for other trans-Caspian pipelines going westward. The implications for both Europe and Russia are considerable, especially as demand continues to increase in Asia.

Although both Turkmenistan and Uzbekistan are certainly energy-rich, there is another example explaining why China's presence in Central Asia is not bound by energy alone.

The Chinese strategy seems to look ahead in the future to forge both economic and political ties in the present, which in turn, may serve it better in the years to come. This longer-term approach for results is often unlike strategies pursued by other global powers desiring to operate in the region. Even though Tajikistan is the poorest nation in Central Asia, China has sought to assist its neighbour, with whom it shares borders linking them to Afghanistan and Pakistan, via making investments with few obvious strings attached. Although the ADB has also attempted to fund road projects, it is often Chinese efforts which achieve the type of results most appreciated by Dushanbe. Working via the SCO, China secured funding for Tajikistan to build roads linking Tajikistan and Uzbekistan. Dushanbe sees the immediate benefits of these infrastructures spurring its own links in trade and exchanges across the region. At the same time, China brings benefits to Tajikistan and the region by serving its own longer-term views of the future in the region. In this sense, it also sees benefits from potential rail connections from China through Kyrgyzstan and northern Tajikistan passing via Afghanistan to reach the Indian Ocean ports, including Gwadar in Pakistan and Bandar Abbas in Iran. Although Beijing understands that these rail routes in Tajikistan may not have immediate economic paybacks, it appears to calculate that with the eventual development of Afghanistan, trade networks connecting northern territories via Afghanistan as well as going east to China and Pakistan and west to Iran will be critical. China may end up not only benefiting from a new bustling Central Asian regional trading hub, but also as being seen as a true partner to the nations of the wider region. Although not immediately apparent, while Beijing is seeking to extend its geopolitical writ (and seemingly not gaining in the short-term), it is, more than any other entity, contributing significantly to economic integration in this region.

33. "*China deepens Central Asia role*", Zabikhulla S Saipov, Asia Times, September 25, 2012

Changing the Geostrategic Plane: One Pipeline & the Telling Demise of TAPI

At the SCO summit in Beijing on June 8, 2012, President Hu Jintao of China met with President Hamid Karzai of Afghanistan to discuss regional and bilateral agreements. As part of the discussion, the Chinese advanced a proposal to build a Turkmenistan-northern Afghanistan-Tajikistan-China gas pipeline.[34] This pipeline, if built, has the potential of changing the energy and geopolitical dynamics in the region in ways not envisioned by external observers. Feasibility studies led by China's National Petroleum Corporation (CNPC) are underway and the proposal is due to also cover oil and gas exploration by CNPC in Afghanistan's north.

To add context, the proposal for the new Turkmenistan-Afghanistan-Tajikistan-China pipeline is in addition to talks the Chinese have had with Kyrgyzstan, where another pipeline could be built, which would go through Kyrgyzstan, to reach China and to deliver Turkmen gas. Geopolitics are at play in many ways here:

i. Firstly, the availability of Turkmen gas would help reduce, if not end, Kyrgyzstan's complete dependence on supplies from Uzbekistan, with which it has had disagreements as covered earlier.
ii. In addition, China would earn Bishkek's trust as such a pipeline could be leveraged to create closer links between Kyrgyzstan's internal north and south.
iii. With these agreements, if fully carried out, Beijing's reach is further extended over the wider region, because the countries of Afghanistan, Tajikistan and Kyrgyzstan are in great need of gas supplies.
iv. These three countries would also gain significantly from the construction of the pipeline itself - and more importantly, from the transit revenues.

It is worthwhile noting here, that contrary to China, powerful Western nations have pursued efforts to help build pipelines connecting Central Asia to the outside markets for over 20 years, without completing a even single one. This is not due to lack of effort. After the breakup of the Soviet Union, US energy companies were encouraged to help connect Central Asia to Europe and South Asia, in order to mitigate Russia's influence in the region. Attempts were made to build pipelines, including one known as Nabucco (planned to go from the Caspian Sea reserves linking Turkmenistan to Turkey and Europe via Azerbaijan). As Nabucco did not go anywhere, recently the name was changed to "Nabucco West" for a pipeline starting in Azerbaijan leaving Turkmenistan out. "Nabucco West" would supply an alternative source of gas to European nations, helping mitigate Europe's dependence on Russian gas supplies. However, "Nabucco West" has still not been built, despite discussions and evaluations which originally started in 1991.

With the new Turkmenistan-Afghanistan-Tajikistan-China proposal, the Chinese have dropped a proverbial "bomb" on the geopolitics of the entire region.

This arrangement has deep and broad economic and geopolitical consequences, and is in line with a semblance of a grand strategy

34. "*China, Afghanistan in strategic partnership*", China Daily, June 8, 2012, http://usa.chinadaily.com.cn/china/2012-06/08/content_15489351.htm

pursued both in the region and across the globe. It is also reflective of how Beijing is poised to change the nature of geopolitics in the region and another indication of China's rise and growing influence over the political climate both in the region and globally.

First, the new pipeline proposal immediately puts at risk the long-discussed but never-realised US-backed TAPI pipeline. TAPI was supposed to go through Afghanistan's east and south, where the Taliban are most active, before ending in Pakistan and eventually in India. The new branch of the Chinese pipeline would only traverse northern Afghanistan, which is much more stable. As mentioned, TAPI has been recently resuscitated by the United States as part of its "New Silk Road" strategy, hoping to dissipate and turn around the uncertain security. Herein lies a fundamental difference between the US and Chinese approaches. The US' pursuit of the "New Silk Road" strategy appears to be – at best - a political proposal. Not only has the US not demonstrated the ability to provide the financing to back its "New Silk Road", but has also not been able to secure funding for the TAPI, either over the years or on the occasion of this "brand new" strategy.

Second, and by contrast, Beijing's approach to its involvement in Central Asia, whether for energy pipelines or other infrastructure building, has been to provide a "packaged" approach, inclusive of loan-for-energy funding, road projects, and other incentives. In this sense, not only is China displacing other powers such as the US and Russia, as well as international organisations such as the World Bank and the IMF, but in the process, it can begin to claim credit for helping facilitate regional integration, where other powers have fallen short.

The Consequences for Pakistan & India

The Afghanistan-China pipeline proposal by Beijing has important consequences for Pakistan and India. In July 2012, India suffered the largest electricity outage in history leaving over 670 million Indians without power. The Afghanistan-China pipeline, if built, would also leave India without access to the much-needed gas from Turkmenistan. If TAPI is not built it might create yet another opportunity for Pakistan as a result, and shift the regional geopolitical map once again. Pakistan is now in a position to push on renewing discussions on building the Iran-Pakistan-India (IPI) pipeline. During the June 2012 SCO meeting, Pakistan discussed resuming considerations for the IPI with Iran's President Ahmadinejad, and there are indications that support for IPI funding may be forthcoming from China. Understandably, the US does not support the IPI, let alone the prospect of losing its influence with its ally Pakistan and setting back the TAPI efforts.

The Chinese demarche to pursue the Afghanistan-China pipeline arrangement also may have rather devastating consequences for Russia, which has been in negotiation to provide additional gas supplies to China from its massive Siberian gas fields. However, as the Turkmen gas supplies to China increase from its current flows, gas would be delivered to China at much lower negotiated prices, due to China's role as financer of the existing Turkmenistan-China pipelines. As the new proposal would augment gas flows to China, similar arrangements would be struck and gas prices would have similar arrangements. In this sense, Russia may be losing twice over, as it not only is not able to get access to Turkmen gas for its own benefit, but would also have to deal with extremely competitive prices, as China's involvement has now altered gas prices in the region.

Clearly, China has the ability to actually build the energy pipelines planned and has demonstrated its aptitude in forging closer relations with the nations in question. As a result, Beijing can be seen as the necessary partner in spurring integration in the region. While the TAPI has always been closer to a dream than to reality, China has built the pipelines it has sought to build. In this sense, China's arrival within this region has rippling consequences and is affecting the global balance of power.

Finally, what we are observing is that China's rise in many parts of the world, and in particular in the Central and South Asia region, is a demonstration that - contrary to common belief - economics may indeed be driving politics. At the same time, many of the challenges of this region lie in deep political and historic mistrust where leadership personalities and corrupt officials often prevail over national affairs. The examination of China's emerging global role demonstrates that when it comes to relations with the Central and South Asia nations, developing ties based on forging the instrumentalisation necessary to carry out its strategies, building trust with the leadership of each nation, investing in supporting trade and commercial exchanges and seeking to focus on enhancing economic development, may re-define both the economic and political planes in ways seldom possible by other participants, especially the US and the EU. This approach places China front and central as the most powerful nation in the region.

6. Conclusions

The Central and South Asia regions cannot be adequately examined without thoroughly understanding the upcoming dominance that China is now poised to exercise over the entire area. Any strategic conception or efforts along the political, economic, security and social dimensions pursued by small or larger actors, by state and non-state actors or by multilateral organisations, cannot be successfully achieved if China's historic ascendance in the region is not fully integrated within policy design and along global, regional and bilateral engagements.

Much of the region under review is mired in both political and economic challenges, including ever-present threats in the Afghanistan-Pakistan axis; tense relations between India and Pakistan; and the significant structural economic challenges exhibited as the principal characteristics of the Central Asian nations. Furthermore, it is noteworthy that the heavy presence of the US and EU in Afghanistan via NATO's engagement, has not produced the basis for sustainable economic development, nor has it engendered mechanisms to spur economic integration between Central and South Asia.

In undertaking a systematic review of the major forces at play and their geopolitical significance, a central goal of this examination was to elucidate the underlying dominant factors most responsible for realising the type of economic integration often desired for the region. In this respect, China has now emerged as the most potent power and the indisputable leading actor in facilitating regional economic integration across these territories. It appears that Beijing has ascended to this role, as an actor endowed with far more potent geopolitical instrumentalisation. In the pursuit of better understanding and assessing the geopolitics of economic integration within the region, it is also apparent that the US, EU, and Russia, often viewed as the sole active dominant forces in world affairs, have not been successful in extending their writ over the region by crafting strategies to spur sustainable political and economic stability. In addition, many of the regional schemes promoted as agents of effective economic integration have not produced concrete results, during the past three decades. Through its extensive, region-wide investments, strategically building up close relationships with all the nations in the region, China has now emerged as the most potent power and the indisputable leading actor in facilitating regional economic integration across these territories, and as reflected in its massive emerging global economic dominance, it is now acting as the *de facto* preeminent force over this entire expanded region. These political and economic advances are creating the conditions for a type of regional integration not envisioned previously by other major global actors - even displacing multilateral organisations such as the World Bank, the IMF and the ADB.

In this respect, it is China's investments in roads, extensive pipeline networks, infrastructure and trade, which now need be seen as the dominant facilitators of economic growth in the region. In this sense, it is rather intriguing to observe that Beijing's execution of its regional activities, while helping to increase economic independence in Central Asian nations - i.e., readying the playing field - is now emerging as conceivably the principal factor paving the way for Afghanistan to act as a land bridge and advance these countries' interests in seeking markets in South Asia, while at the same time fulfilling its destiny in realising the new supply-demand equitation now emerging in the region. Although Beijing may not readily admit to such a grand strategy, there is a recognition that very little China does is without some strategic consequences.

Even though China's influence over this region is now almost total, this is not the story of China's rise alone. For Central Asian countries, as a result of the recently acquired basis for economic independence - which can only fully emerge by unlocking the potential of these new assets with the involvement of Afghanistan - the nations of this region are now emerging, and genuinely bestowed, with a whole host of new capabilities, opportunities and options at their disposal, in order to undertake a series of demarches in pursuit of their own national interests. The policy implications of the above are far-reaching for the traditional major powers – the US, EU and Russia.

The United States' relations with Asia are now evolving and changing at a rapid pace. While it was able to better fare - and even benefit from - the rise of allies such as Japan, Korea, Singapore and Taiwan, China's ascendance requires new thinking by policymakers, as it redefines and questions the United States' position as a global leader in ways it has never been challenged previously.

It is clear too that China is not going to be an ordinary superpower. Despite its global ascendance, Beijing's own domestic concerns, such as social stability, the sustainability of its economic growth and cohesion across its internal territories may define its relations with the outside as much as its international activities. Contrary to many observers, including in the US, who view the relationship through the perspective of offensive realism or power transition and may expect a more confrontational relationship with China, there is in fact another perspective. Viewing the advances achieved via the benefits of economic interdependence within the globalised system indicates that the high costs of conflict may in fact prevent both China and the US from engaging in antagonism. As such, instead of building their naval and security infrastructure, especially in the South China Sea, both countries should invest in furthering their economic ties, in particular to advance economic integration in the region of Central and South Asia.

Russia's position has been nothing short of cataclysmic when it comes to China's rise in this region. However, it still retains influence within its former domain. Despite China's new hold over many relations in the region, most of the leadership in this area does not want to be wholly dependent on Beijing. Russia still enjoys historic and cultural ties with Central Asia, (although some are now strained). Moscow woke up to the arrival and the extent of China's rise in the region when it was hit by the 2008 financial crisis. This deeply affected the Russian economy, but China was not hit with nearly the same force. This allowed Beijing to continue its economic and financial advances in the region, a reflection of the instrumentalisation of its foreign policy strength. In effect, post-financial crisis, China was using lower international prices to effectuate a takeover, not just in Central Asia - Russia's backyard - but also in Africa and Latin America.

In this sense, the acceleration of the global balance of power in China's favour is now Russia's greatest foreign policy challenge. Russia would need to find alternative means of pursuing its interests. One such approach would be to execute a strategy to advance further economic opening on its eastern shores to support and increase ties with China, but also to benefit from the explosive growth experienced by the South East Asia region. Russia would be ill-advised to pursue its efforts within the CSTO to further distance itself from China. In addition, it is now understood that Russia's pursuit and establishment of the Eurasia Union is due to its concerns about China's rise. Again, this initiative would, on the margin, provide meagre benefits for Moscow, but it would not reduce or stop China's ascendance as a world power. Russia is endowed with great natural resources and is geographically well placed to not only supply energy to feed China's economic growth, but to also cultivate much closer ties in trade, by building additional overland connections to China, expanding commercial exchanges, and joining forces in South and East Asia to promote more integrated markets.

The EU is falling far behind other actors when it comes to this region. Although its first priority is to attend to its serious economic crisis, Brussels would need to re-engage itself in the region to assure Europe's economic survival in the 21st century. The EU is dangerously dependent on Russia for energy. Diversifying and securing its energy supply is reason alone for a deeper engagement in this region. Importantly, it would be advisable to continue to act as a block in assuring that a European voice is heard on the issues of governance, human rights and on supporting the building of democratic institutions. No other global power can claim a better position on these issues. Although promoting democratic structures would certainly be preferable, European efforts need to be designed to take account of each particular country's developmental stage. Pushing for elections alone can sometimes be unproductive and backfire. Focusing on market-building initiatives may instead empower entrepreneurship and a budding middle class, which can in turn assure better accountability from the elite class. China is certainly following a track based on the economic influence of state leaders. However, Europe can forge its own path, which would assure that the forces of economic development can help lead political openings and in doing so, perhaps build a better model than that of China. After all, this process was what created wealth and engendered stability in Europe over the centuries, as economic empowerment led the merchant classes to demand increased political rights. None the less, to do so, the EU would need to become much closer to the region: it needs to develop more commercial exchanges and cultural ties, and have a local presence, including a heightened diplomatic representation, especially in Central Asia where this has been limited or absent.

Afterword

There is a new global battle for world dominance underway. It is redefining the world's future development model based on strategies promoting economic growth and integration. We are now witnessing the new Great Game in real-time, where countries across the globe will choose between the new Chinese model and the Western model led by the EU and US.

In 2013, President Xi of China announced a $64 billion initiative for infrastructure development, followed in 2015 by a $46 billion project called "One Belt, One Road." These are massive investments designed to promote growth and achieve economic integration in Central Asia, and to link China, Central and South Asia, and Europe with a network of roads, rail, and maritime routes. The strategy is poised not only to create economic and geopolitical ripples across Eurasia, but to offer a future global development model to the rest of the world.

The U.S. and Europe have had over 15 years in Afghanistan and its region to realize security and economic stability. However, after billions spent, their models have not succeeded in achieving their goals. And now, we have ISIS not only creeping into this region, but also creating havoc in the Middle-East and a migration nightmare for Europe.

Between 1990s and 2014, U.S. economic and military assistance to the five states of Central Asia, including Afghanistan, totaled to less than $6.5 billion (constant dollars), and now all but stopped. As a result, today the region gravitates increasingly toward the Chinese political and economic orbit. At the same time, despite Russia's saber rattling recently, the repercussions of its aggression in Ukraine, and especially its deep economic troubles will make its influence even smaller in light of the emergence of China's behemoth presence.

China's new strategy under One Belt, One Road represents a remarkable departure in Chinese global policy. For the first time, China is seeking to export its development model to other countries – and is now launching this strategy in the very heard of Asia—in Central Asia. Unlike what has transpired both in Europe and in the US which have neglected it for decades, China will pursue massive state-led investments in infrastructure – roads, railways, ports, electricity, and airports – that facilitate extensive industrial development and economic integration, and establish a new global model.

The only question for geopolitics and the future of economic development is simple: Whose model will prevail?

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