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## **EURASIA’S HISTORIC CONTINENTALIST TRANSITION: IMPLICATIONS FOR THE BROADER WORLD**

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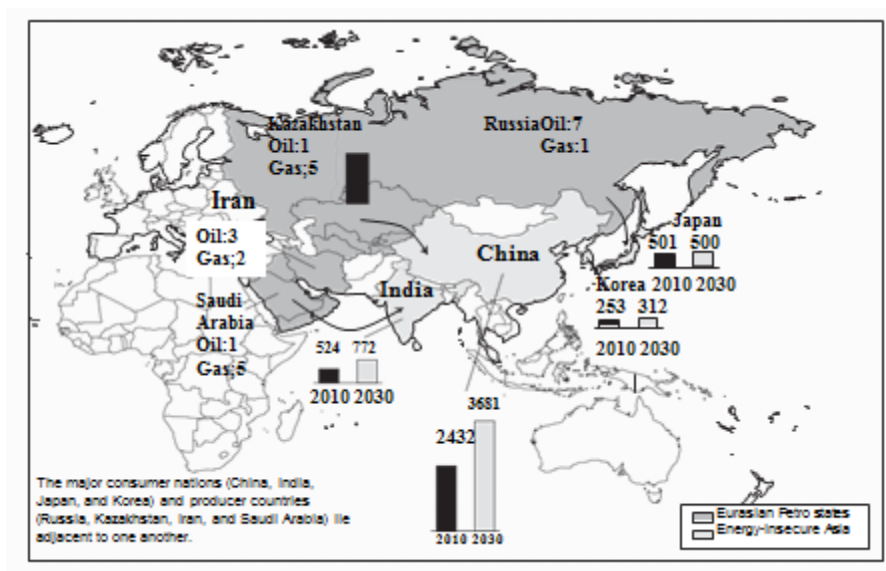
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A generation ago, as the Cold War in Europe was ending, China, India, the Middle East, and the constituent republics of the Soviet Union stood in largely static and distant relations with one another. Today political-economic ties across Eurasia are much more dynamic: interdependence is steadily rising along multiple dimensions, including trade, finance, energy, and security collaboration. How far can deepening trans-continental linkages proceed, in the face of ethnic tensions, nationalism, and a re-definition of America’s stabilizing role? And what will the emergence of a “new continentalism” mean for the broader world?

The essential point of departure in understanding Eurasia’s “new continentalism” is an understanding of how global energy reserves are distributed geographically. Around 60 percent of global crude oil reserves, together with an even larger portion of natural gas, are concentrated in either the Persian Gulf or the former Soviet Union. *Those two strategic regions with respect to global energy supply lie directly adjacent to one another.* Fatefully, the *two most populous nations in the world*—China and India, with close to 40 percent of global population between them—*also lie in close geographic proximity to the largest potential energy suppliers*, as is clear from Figure 1.

**Figure 1. The energy foundation for Eurasian continentalism**



Sources: BP, *Statistical Review of World Energy*, 2011 edition; U.S. Department of Energy, Energy Information Administration, *International Energy Outlook*, 2010 edition, <http://www.eia.doe.gov/oiaf/ieo/pdf/ieofcase.pdf>.

Pulitzer Prize-winning author Thomas Friedman and others have been recently asserting that “the world is flat”, and that geography does not matter much anymore. That may be true with respect to finance, Internet communications, or even globally distributed manufacturing. It is a distinctly dubious proposition, however, in most matters relating to energy. On the Eurasian continent, in particular, geography establishes the solid economic basis for a deep interdependence between neighboring nations that are respectively the largest energy producers and consumers on earth.

Saudi Arabia, Iran, and Russia, of course, have been geographical neighbors throughout history, just as China and India likewise have not been far away. That proximity did not matter much in political-economic terms even four decades ago. Yet six critical junctures during the last third of the twentieth century laid the basis for an increasingly integrated and interactive Eurasian political economy, by (1) radically transforming the domestic economies of key nations in the region, while also (2) relaxing political constraints on their potentially attractive mutual relationships. Through an integrated dynamic of economic and political change, the latent, energy-based complementarities between eastern and western Eurasia have finally begun to be realized, and triggering an interdependence that has steadily deepened over the past decade.

The first of the fateful changes that gave birth to the new Eurasian continentalism was a political statement: the nationalization of the major Western energy concessions in the Middle East, centering on Aramco, across the decade of the 1970s. This nationalistic assertion brought Eurasia’s energy producers and consumers into much more direct working-level relationships, that short-circuited previous Western dominance. A few years later, from late 1978, Deng Xiaoping’s Four Modernizations began to unleash China’s enormous economic growth potential, and ultimately the surging energy demand that followed in its wake. That impact on continental

energy demand was amplified by India's reforms, beginning in 1991. Even today China's per capita energy demand remains only one sixth that of the United States, and three times that of Japan, while India's is more like one tenth of American levels. These critical junctures have thus unleashed patterns of growth and energy demand that likely will persist far into the future, if Asian growth continues to be vigorous, as seems likely.

The fourth and fifth critical junctures had to do with the transformation of the former Soviet Union, a change which contributed in crucial ways to the nature of the "new continentalism" which emerged from the mid-1990s on. The collapse of the Soviet Union at the end of 1991—a fourth critical juncture—opened the way for interdependence between energy-rich Central Asia and the rising political economies of China and India next door, with their soaring energy demand. Less than a decade later, the ascent of Vladimir Putin, a long-time KGB officer, to Presidency of the Russian Federation, provoked a markedly more geostrategic Russian approach to energy policy, and a markedly less liberal cast to the evolution of continental Eurasia as a whole.

The final critical juncture—Iran's Islamic revolution of 1979—added a dark undertone of ethnic strife to the deepening, energy-driven interdependence which the other critical junctures were setting in motion across Eurasia. The rise of Ayatollah Khomeini unleashed tensions between Shia and Sunni, between fundamentalist and secular, and between Islam collectively and the Judeo-Christian West. These tensions could not prevent deepening trans-continental interdependence. Yet they nevertheless endowed continentalism with a more turbulent, unsettling character than would otherwise have been true. The Islamic jihad against the Soviets in Afghanistan, the birth of Pakistan's Islamic state, the Iran-Iraq conflict, the Hezbollah movement,

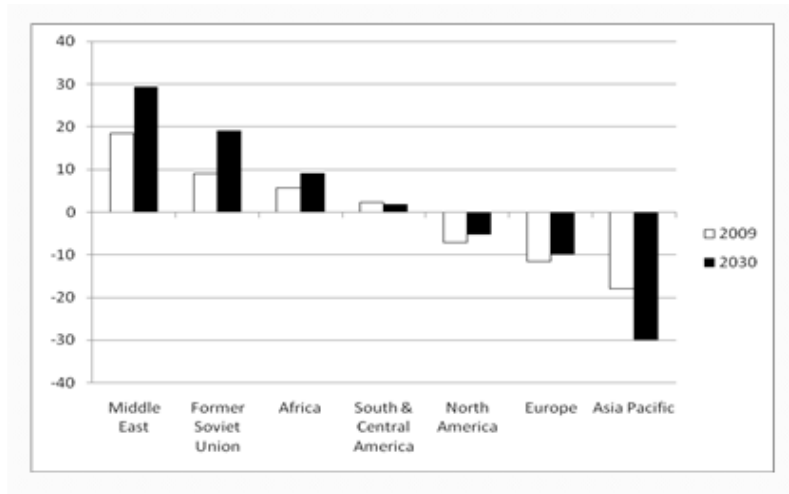
the Arab Spring uprisings in Bahrain, and the bloody, ongoing conflict in Syria have all had their proximate origins in the fateful Iranian critical juncture, now over three decades in the past.

Taken together, the six critical junctures outlined above transformed the Eurasian continent, rendering latent energy complementarities actual, and bringing a rapidly growing and turbulent, but increasingly interdependent, continent into being. The Middle East and Central Asia were abruptly thrust into deepening interaction with a rising China and its Northeast Asian neighbors. As late as the first half of 1993, China was an oil exporter, Korean and Indian imports were still minor in quantitative terms, and the vast bulk of Asian energy trade consisted of Japanese imports moving from the Persian Gulf to Yokohama and Kobe by sea. Today Asian energy imports from the Gulf are many times what they were in those days, including nearly five million barrels daily flowing to China, while a deepening network of overland oil and gas pipelines from Turkmenistan, Kazakhstan, Russia, and Myanmar into China have developed as well.

Future energy interdependence between the neighboring producers and consumers of Eurasia seems fated to rise massively in coming years. In 2010, for example, the Middle East and the former Soviet Union exported roughly 27 million barrels of oil per day more than they imported. By 2030, however, the International Energy Agency projects that these same two contiguous Eurasian regions should together be exporting around 48 million bbl./day, or nearly twice as much as in 2010. Conversely, net imports into the Asia-Pacific region are expected to rise from 18 million bbl./day to 30 million bbl./day, as indicated in Figure 2. The deepening sub-regional imbalances within Eurasia—between increasingly ravenous Asian consumers and ever expanding Asian producers—will likely be the largest in the world, thus creating massive economic pressure for expanding trans-continental energy-trade relations.

**Figure 2. The Middle East and Asia—contrasting oil export and import poles (2009-2030)**

(unit: Million Barrels per day)



Sources: BP, *Statistical Review of World Energy*, 2011 edition; and International Energy Agency, *World Energy Outlook*, 2011 edition.

Japan and Korea are virtually devoid of domestic hydrocarbons, and lie far to the east of the major Eurasian oil and gas reservoirs, concentrated in the Persian Gulf. They have thus traditionally imported energy over the sea lanes from the Gulf, passing through a number of narrow choke points, such as the Strait of Malacca and the Strait of Hormuz. Since the mid-1990s, however, a new, more explicitly continental energy-supply dynamic has begun to emerge, inspired by key critical junctures discussed above: the advent of explosive growth in China and India, coupled with new prospects of interdependence across Central Asia, inspired by the collapse of the Soviet Union.

Historic changes within the Chinese domestic political economy, inspired originally by Deng Xiaoping's Four Modernizations, are a primary catalyst for the New Continentalism, albeit not its only proximate cause. Three changes have been of special consequence: (a) the westward migration of China's center of economic gravity over the past decade, inspired by regional development policies and local price differentials; (b) heavy government infrastructure spending, in the interest of national unity (which is extending pipelines, highways, power lines, and high-speed railways rapidly across the two-thirds of the distance between Beijing and the Strait of Hormuz that lies within the PRC); and (c) a conscious effort, on the part of Chinese policymakers, to reduce dependence on the southern energy sea lanes, where the influence of the U.S. Navy looms large. These internal changes within China have special impact in catalyzing a broader Eurasian continentalism, due not only to China's growing economic scale, but also due to the PRC's geographical expanse, and its central position within the Eurasian continent, bordering on fourteen other nations.

Energy is a key driver for the New Continentalism, due both to the deep complementarities between neighboring parts of Eurasia (Russia and the Middle East on the production side, as well as China and India on the consumer side), as well as the extremely low levels of per capita consumption in China and India. Given that Chinese consumers today use only one sixth, and Indians roughly one tenth, of the energy consumed by their American counterparts, energy demand in those two gigantic nations has far to go in the future.

Yet energy demand is not the only factor at work in generating Eurasian continentalism. The geopolitical attraction of establishing an alternative pole of global influence to Washington, D.C. is also a consideration for some of the larger continental powers, including notably Russia, China,

Iran, and to some extent India. Broader trade and financial inter-relationships among Eurasian nations are also enhancing their growing inter-dependence with one another.

Concrete manifestations of the New Continentalism began emerging with particular clarity and momentum during and just after the global financial crisis of 2008-2009. Pipelines have been one of the most dramatic. For many years Eurasia—in sharp contrast to North America and Europe—was the one major industrial region of the world that lacked a natural-gas grid. Yet in December, 2009 a 4000-mile pipeline linking Turkmenistan and China’s east coast was completed, followed by major pipelines from Kazakhstan; the Irkutsk-Baikal region of Russia; and Myanmar into China.

Several additional pipeline routes are now being actively considered, while new forms of regional infrastructure are also underway. Urumchi, in Xinjiang, as well as Navroi and Tashkent in Uzbekistan, have become major hubs for passenger and cargo traffic by air. High-speed rail lines and faster truck routes are being planned, and border-clearance processes are being streamlined to make overland transit faster and more efficient.

“Continentalist” regional institutions are likewise evolving, although by no means to the exclusion of broader global affiliations such as the World Trade Organization or the United Nations. Some continentalist bodies are conference-based configurations like the Conference on Interaction and Confidence Building Measures in Asia (CICA), which are mainly trans-national leadership networks. Others are functional bodies like the Shanghai Cooperation Organization (SCO), with a more concrete institutional structure. SCO, founded in 2001, had made headway mainly in security cooperation, especially in anti-terrorist activities, although some of its



members have urged broadening. There is also a Eurasian Development Bank, and various Islamic trans-national bodies, that deepen cultural exchange across Eurasia.

At the geopolitical level, the central relationships within Eurasia's "common space" are those among Russia, China, and India. Significantly, Russia is the largest supplier of both energy and arms to the other two members of this strategic triangle, although its economic relationships with these countries, and with the broader continent, otherwise remain comparatively weak. Korea and Japan, as well as the United States, have attractive technology, expertise, and finance to offer the Eurasian giants as well, although their economies tend to be oriented toward global concerns.

### **Implications of the New Continentalism**

If Eurasia were to cohere as a cooperative geopolitical entity within the global system, the implications would of course be profound. In 2010, China, India, and Russia combined had 39 percent of the world's population, 20 percent of its area, and 14 percent of its GDP. And their collective share is rising. Continentalist cohesion among these Eurasian giants is of course unlikely. Yet without conscious outside engagement by nations like the U.S. and its Northeast Asian allies, interdependence within continental Eurasia could well continue to rise, in both economic and political-military terms.

A downsizing in America's regional and global role would naturally enhance prospects for greater interdependence within Eurasia. The United States completed its withdrawal from Iraq in late 2011, and will likely end its Afghanistan combat presence in 2014. On the economic front, both the US and Europe now face major fiscal constraints on their Eurasian presence, increasing

the likelihood of China and other Eurasian powers playing a more central continental role in the post-Afghanistan conflict era.

The New Continentalism thus seems to imply both greater trans-national interdependence across Eurasia, and also possibly a more modest American role. What might this deepening regional interdependence mean for political stability and economic prosperity within the new, emerging region? And what might it mean for the global order as a whole?

Deepening economic interdependence among the nations of Eurasia over the past decade, centering on energy, has not so far exacerbated geopolitical tensions. If anything, it has inhibited them. Apart from conflicts among Iran, Iraq, and the Gulf states precipitated by Saddam Hussein, there has not been an armed inter-state conflict within Eurasia, with the exception of recurring Israeli-Arab confrontations, since the Chinese invasion of Vietnam in 1979. The greater instabilities, and the greater violence, have stemmed from ethnic conflict, like that between Sunni and Shiite Muslims, at the sub-national level, in countries ranging from Pakistan and Afghanistan to Bahrain and Syria, set in motion by political earthquakes like the Iranian Revolution and the Arab Spring.

In the final analysis, the pattern of stable, deepening Eurasian continental interdependence, driven by the energy demand flowing from high rates of economic growth, seems likely to be sustained for some time to come. No doubt there will be retrenchment and tensions flowing from economic crisis, as during the late 1990s and in 2008-2009. Yet the broad pattern, which has persisted for more than three decades, seems likely to be sustained. If that proves to be the case, Eurasia as an interactive unit—not simply China, Russia, India, Korea, Iran, or Japan, but all of

them and more—will be an ever more important unit of analysis in world affairs. And the engagement of free-market democratic powers like Korea, Japan, the United States, and India with core continentalist powers like China and Russia—in a broad range of interactions ranging from foreign investment to diplomacy—will be crucial in discouraging perverse, illiberal continentalist configurations from dominating a crucial theater of international affairs.

The views expressed herein do not necessarily reflect the views  
of the Asan Institute for Policy Studies.

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