Pipeline Geopolitics. Betting and Bluffing in the New Great Game

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Global Research, October 13, 2010
TomDispatch 12 October 2010

Region: Asia
Theme: Oil and Energy

Future historians may well agree that the 21st century Silk Road first opened for business on December 14, 2009. That was the day a crucial stretch of pipeline officially went into operation, linking the fabulously energy-rich state of Turkmenistan (via Kazakhstan and Uzbekistan) to Xinjiang province in China's far west. Hyperbole did not deter the spectacularly named Gurbanguly Berdymukhamedov, Turkmenistan's president, from bragging: "This project has not only commercial or economic value. It is also political. China, through its wise and farsighted policy, has become one of the key guarantors of global security."

The bottom line is that, by 2013, Shanghai, Guangzhou and Hong Kong will be cruising to ever more dizzying economic heights courtesy of natural gas supplied by the 1,833-kilometer Central

Asian pipeline, then projected to be operating at full capacity. And to think that, in a few more years, China's big cities will undoubtedly also be getting a taste of Iraq's fabulous, barely tapped oil reserves: conservatively estimated at 115 billion barrels, but possibly closer to 143 billion barrels – which would put it ahead of Iran. When the George W Bush administration's armchair generals launched their "war on terror", this was not exactly what they had in mind.

China's economy is thirsty, and so it's drinking deeply and planning more deeply yet. It craves Iraq's oil and Turkmenistan's natural gas, as well as oil from Kazakhstan. Yet instead of spending more than a trillion dollars on an illegal war in Iraq or setting up military bases all over the greater Middle East and Central Asia, China used its state oil companies to get some of the energy it needed simply by bidding for it in a perfectly legal Iraqi oil auction.

Meanwhile, in the new Great Game in Eurasia, China had the good sense not to send a soldier anywhere or get bogged down in an infinite quagmire in Afghanistan. Instead, the Chinese simply made a direct commercial deal with Turkmenistan and, profiting from that country's disagreements with Moscow, built itself a pipeline that will provide much of the natural gas it needs.

No wonder the Barack Obama administration's Eurasian energy czar, Richard Morningstar, was forced to admit at a congressional hearing that the US simply cannot compete with China when it comes to Central Asia's energy wealth. If only he had delivered the same message to the Pentagon.

That Iranian equation

In Beijing, they take the matter of diversifying oil supplies very, very seriously. When oil reached US$150 a barrel in 2008 – before the US-unleashed global financial meltdown hit – Chinese state media had taken to calling foreign Big Oil "international petroleum crocodiles", with the implication that the West's hidden agenda was ultimately to stop China's relentless development dead in its tracks.

More than a quarter of what's left of the world's proven oil reserves are in the Arab world. China could easily gobble it all up. Few may know that China itself is actually the world's fifth-largest oil producer, at 3.7 million barrels per day (bpd), just below Iran and slightly above Mexico. In 1980, China consumed only 3% of the world's oil. Now, its take is around 10%, making it the planet's second largest consumer.

It has already surpassed Japan in that category, even if it's still way behind the US, which eats up 27% of global oil each year. According to the International Energy Agency, China will account for over 40% of the increase in global oil demand until 2030. And that's assuming China will grow at "only" a 6% annual rate which, based on present growth, seems unlikely.

Saudi Arabia controls 13% of world oil production. At the moment, it is the only swing producer – one, that is, that can move the amount of oil being pumped up or down at will – capable of substantially increasing output. It's no accident, then, that, pumping 10.9 million barrels per day (bpd), it has become one of Beijing's major oil suppliers.

The top three, according to China's Ministry of Commerce, are Saudi Arabia, Iran and Angola. By 2013-2014, if all goes well, the Chinese expect to add Iraq to that list in a big way, but first that troubled country's oil production needs to start cranking up. In the meantime, it's the Iranian part of the Eurasian energy equation that's really nerve-racking for China's leaders.

Chinese companies have invested a staggering $120 billion in Iran's energy sector over the past five years. Already, Iran is China's number two oil supplier, accounting for up to 14% of its imports, and the Chinese energy giant Sinopec has committed an additional $6.5 billion to building oil refineries there.

Due to harsh United Nations-imposed American sanctions and years of economic mismanagement, however, the country lacks the high-tech know-how to provide for itself, and its industrial structure is in a shambles. The head of the National Iranian Oil Company, Ahmad Ghalebani, has publicly admitted that machinery and parts used in Iran's oil production still have to be imported from China.

Sanctions can be a killer, slowing investment, increasing the cost of trade by over 20%, and severely constricting Tehran's ability to borrow in global markets. Nonetheless, trade between China and Iran grew by 35% in 2009 to $27 billion. So while the West has been slamming Iran with sanctions, embargoes, and blockades, Iran has been slowly evolving as a crucial trade corridor for China – as well as Russia and energy-poor India.

Unlike the West, they are all investing like crazy there because it's easy to get concessions from the government; it's easy and relatively cheap to build infrastructure; and being on the inside when it comes to Iranian energy reserves is a necessity for any country that wants to be a crucial player in Pipelineistan, that contested chessboard of crucial energy pipelines over which much of the new great game in Eurasia takes place. Undoubtedly, the leaders of all three countries are offering thanks to whatever gods they care to worship that

Washington continues to make it so easy (and lucrative) for them.

Few in the US may know that last year Saudi Arabia – now (re)arming to the teeth, courtesy of Washington, and little short of paranoid about the Iranian nuclear program – offered to supply the Chinese with the same amount of oil the country currently imports from Iran at a much cheaper price. But Beijing, for whom Iran is a key, long-term strategic ally, scotched the deal.

As if Iran's structural problems weren't enough, the country has done little to diversify its economy beyond oil and natural-gas exports in the past 30 years: inflation's running at more than 20%; unemployment at more than 20%; and young, well-educated people are fleeing abroad, a major brain drain for that embattled land. And don't think that's the end of its litany of problems.

It would like to be a full member of the Shanghai Cooperation Organization (SCO) – the multi-layered economic/military cooperation union that is a sort of Asian response to the North Atlantic Treaty Organization – but is only an official SCO observer because the group does not admit any country under UN sanctions.

Tehran, in other words, would like some great-power protection against the possibility of an attack from the US or Israel. As much as Iran may be on the verge of becoming a far more influential player in the Central Asian energy game thanks to Russian and Chinese investment, it's extremely unlikely that either of those countries would actually risk war against the US to "save" the Iranian regime.

The great escape

From Beijing's point of view, the title of the movie version of the intractable US v Iran conflict and a simmering US v China strategic competition in Pipelineistan could be: "Escape from Hormuz and Malacca."

The Strait of Hormuz is the definition of a potential strategic bottleneck. It is, after all, the only entryway to the Persian Gulf and through it now flow roughly 20% of China's oil imports. At its narrowest, it is only 36 kilometers wide, with Iran to the north and Oman to the south. China's leaders fret about the constant presence of US aircraft-carrier battle groups on station and patrolling nearby.

With Singapore to the north and Indonesia to the south, the Strait of Malacca is another potential bottleneck if ever there was one – and through it flow as much as 80% of China's oil imports. At its narrowest, it is only 54 kilometers wide and like the Strait of Hormuz, its security is also of the made-in-USA variety. In a future face-off with Washington, both straits could quickly be closed or controlled by the US Navy.

Hence, China's increasing emphasis on developing a land-based Central Asian energy strategy could be summed up as: Bye-bye, Hormuz! Bye-bye, Malacca! And a hearty welcome to a pipeline-driven new Silk Road from the Caspian Sea to China's far west in Xinjiang.

Kazakhstan has 3% of the world's proven oil reserves, but its largest oil fields are not far from the Chinese border. China sees that country as a key alternative oil supplier via future pipelines that would link the Kazakh oil fields to Chinese oil refineries in its far west. In fact, China's first transnational Pipelineistan adventure is already in place: the 2005 China-Kazakhstan oil project, financed by Chinese energy giant CNPC.

Much more is to come, and Chinese leaders expect energy-rich

Russia to play a significant part in China's escape-hatch planning as well. Strategically, this represents a crucial step in regional energy integration, tightening the Russia/China partnership inside the SCO as well as at the UN Security Council.

When it comes to oil, the name of the game is the immense Eastern Siberia-Pacific Ocean (ESPO) pipeline. Last August, a 4,000-kilometer-long Russian section from Taishet in eastern Siberia to Nakhodka, still inside Russian territory, was begun. Russian Premier Vladimir Putin hailed ESPO as "a really comprehensive project that has strengthened our energy cooperation." And in late September, the Russians and the Chinese inaugurated a 999-kilometer pipeline from Skovorodino in Russia's Amur region to the petrochemical hub Daqing in northeast China.

Russia is currently delivering up to 130 million tons of Russian oil a year to Europe. Soon, no less than 50 million tons may be heading to China and the Pacific region as well.

There are, however, hidden tensions between the Russians and the Chinese when it comes to energy matters. The Russian leadership is understandably wary of China's startling strides in Central Asia, the former Soviet Union's former "near abroad." After all – as the Chinese have been doing in Africa in their search for energy – in Central Asia the Chinese are building railways and introducing high-tech trains, among other modern wonders, in exchange for oil and gas concessions.

Despite the simmering tensions between China, Russia, and the US, it's too early to be sure just who is likely to emerge as the victor in the new Great Game in Central Asia, but one thing is clear enough. The Central Asian "stans" are becoming ever more powerful poker players in their own right as Russia tries not to lose its hegemony there, Washington places all its chips on pipelines meant to bypass Russia (including the Baku-Tbilisi-Ceyhan (BTC) pipeline that pumps oil from Azerbaijan to Turkey via Georgia) and China antes up big time for its Central Asian future. Whoever loses, this is a game that the "stans" cannot but profit from.

Recently, our man Gurbanguly, the Turkmen leader, chose China as his go-to country for an extra $4.18 billion loan for the development of South Yolotan, his country's largest gas field. (The Chinese had already shelled out $3 billion to help develop it.) Energy bureaucrats in Brussels were devastated. With estimated reserves of up to 14 trillion cubic meters of natural gas, the field has the potential to flood the energy-starved European Union with gas for more than 20 years. Goodbye to all that?

In 2009, Turkmenistan's proven gas reserves were estimated at a staggering 8.1 trillion cubic meters, fourth largest in the world after Russia, Iran, and Qatar. Not surprisingly, from the point of view of Ashgabat, the country's capital, it invariably seems to be raining gas. Nonetheless, experts doubt that the landlocked, idiosyncratic Central Asian republic actually has enough blue gold to supply Russia (which absorbed 70% of Turkmenistan's supply before the pipeline to China opened), China, Western Europe and Iran, all at the same time.

Currently, Turkmenistan sells its gas to: China via the world's largest gas pipeline, 7,000 kilometers long and designed for a capacity of 40 billion cubic meters per year; Russia (10 billion cubic meters per year, down from 30 billion per year until 2008); and Iran (14 billion cubic meters per year). Iranian President Mahmud Ahmadinejad always gets a red-carpet welcome from Gurbanguly, and the Russian energy giant Gazprom, thanks to an improved pricing policy, is treated as a preferred customer.

At present, however, the Chinese are atop the heap, and more generally, whatever happens, there can be little question that Central Asia will be China's major foreign supplier of natural gas. On the other hand, the fact that Turkmenistan has, in practice, committed all of its future gas exports to China, Russia, and Iran means the virtual death of various trans-Caspian Sea pipeline plans long favored by Washington and the European Union.

IPI vs TAPI all over again

On the oil front, even if all the "stans" sold China every barrel of oil they currently pump, less than half of China's daily import needs would be met. Ultimately, only the Middle East can quench China's thirst for oil. According to the International Energy Agency, China's overall oil needs will rise to 11.3 million barrels per day by 2015, even with domestic production peaking at 4 million bpd. Compare that to what some of China's alternative suppliers are now producing: Angola, 1.4 million bpd; Kazakhstan, 1.4 million as well; and Sudan, 400,000.

On the other hand, Saudi Arabia produces 10.9 million bpd, Iran around 4 million, the United Arab Emirates (UAE) 3 million, Kuwait 2.7 million – and then there's Iraq, presently at 2.5 million and likely to reach at least 4 million by 2015. Still, Beijing has yet to be fully convinced that this is a safe supply, especially given all those US "forward operating sites" in the UAE, Bahrain, Kuwait, Qatar and Oman, plus those roaming naval battle groups in the Persian Gulf.

On the gas front, China definitely counts on a South Asian game changer. Beijing has already spent $200 million on the first phase in the construction of a deepwater port at Gwadar in Pakistan's Balochistan province. It wanted, and got from Islamabad, "sovereign guarantees to the port's facilities." Gwadar is only 400 kilometers from Hormuz. With Gwadar, the Chinese Navy would have a homeport that would easily allow it to monitor traffic in the strait and someday perhaps even thwart the US Navy's expansionist designs in the Indian Ocean.

But Gwadar has another infinitely juicier future role. It could prove the pivot in a competition between two long-discussed pipelines: TAPI and IPI. TAPI stands for the Turkmenistan-Afghanistan-Pakistan-India pipeline, which can never be built as long as US and NATO occupation forces are fighting the resistance umbrella conveniently labeled "Taliban" in Afghanistan. IPI, however, is the Iran-Pakistan-India pipeline, also known as the "peace pipeline" (which would make TAPI the "war pipeline"). To Washington's immeasurable distress, last June, Iran and Pakistan finally closed the deal to build the "IP" part of IPI, with Pakistan assuring Iran that either India or China could later be brought into the project.

Whether it's IP, IPI or IPC, Gwadar will be a key node. If, under pressure from Washington, which treats Tehran like the plague, India is forced to pull out of the project, China already has made it clear that it wants in. The Chinese would then build a Pipelineistan link from Gwadar along the Karakorum highway in Pakistan to China via the Khunjerab Pass – another overland corridor that would prove immune to US interference. It would have the added benefit of radically cutting down the 20,000-kilometer tanker route around the southern rim of Asia.

Arguably, for the Indians it would be a strategically sound move to align with IPI, trumping a deep suspicion that the Chinese will move to outflank them in the search for foreign energy with a "string of pearls" strategy: the setting up of a series of "home ports" along its key oil supply routes from Pakistan to Myanmar. In that case, Gwadar would no longer simply be a "Chinese" port.

As for Washington, it still believes that if TAPI is built, it will help keep India from fully breaking the US-enforced embargo on Iran. Energy-starved Pakistan obviously prefers its "all-weather" ally China, which might commit itself to building all sorts of energy infrastructure within that flood-devastated country. In a nutshell, if the unprecedented energy cooperation between Iran, Pakistan, and China goes forward, it will signal a major defeat for Washington in the new Great Game in Eurasia, with enormous geopolitical and geo-economic repercussions.

For the moment, Beijing's strategic priority has been to carefully develop a remarkably diverse set of energy suppliers – a flow of energy that covers Russia, the South China Sea, Central Asia, the East China Sea, the Middle East, Africa, and South America. (China's forays into Africa and South America will be dealt with in a future installment of our tour of the globe's energy hotspots.) If China has so far proven masterly in the way it has played its cards in its Pipelineistan "war," the US hand – bypass Russia, elbow out China, isolate Iran – may soon be called for what it is: a bluff.

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