

# The Shanghai Co-operation Organisation: China's Initiative in Regional Institutional Building

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**ABSTRACT** *China's initiative in establishing and promoting the development of the Shanghai Co-operation Organisation (SCO) is an interesting case study of China's attempt at regional institution building. China's increasing interest in Central Asia coincided with its gradual acceptance and rising enthusiasm regarding participation in regional organisations. The "Shanghai Five" mechanism and the SCO were seen as appropriate mechanisms for pursuing China's multiple interests in the region; their development was also in line with the improvement in Sino-Russian relations. Chinese leaders have skilfully developed the SCO's institutional framework, and they seem intent on getting good value for the resources spent. The leaders have also demonstrated considerable patience when the SCO's development encountered setbacks.*

**KEY WORDS:** Shanghai Co-operation Organisation, regionalism, institution building, Central Asia, Sino-Russian relations, oil, gas, New Silk Road

Following the break-up of the Soviet Union, China has engaged in increasingly close co-operation with the five Central Asian republics (Kazakhstan, Tajikistan, Kyrgyzstan, Turkmenistan and Uzbekistan). This co-operation has been perceived by the Chinese leadership as essential to maintaining security along its western border, promoting the economic development of western China, diversifying the sources of China's energy imports and those of other raw materials, and the securing of a peaceful and friendly international environment along its frontiers.

Experts from China's official think-tanks<sup>1</sup> claim that China's Central Asian policy follows the following principles:

1. respect for the sovereignty and independence of the countries concerned, respect for the cultural traditions and diversity in civilisations in the region, non-interference in the countries' domestic affairs, and non-interference in their choice of social systems and development models;
2. avoidance of establishing alliances with the Central Asian republics or establishing exclusive spheres of influence in the region, maintenance of regional stability and security for common development;

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3. economic assistance without pre-conditions, refraining from interfering in the political and economic policies of the Central Asian republics using aid and investment as tools;
4. engaging in bilateral and multilateral economic and trade co-operation as well as trade facilitation on the basis of voluntary co-operation, taking into account their present economic situation;
5. in the handling of long-standing border issues, taking into consideration history and reality, consultation on an equal basis, mutual understanding and actual concessions, while accepting the need for essential adjustments in specific areas;
6. the pursuit of political-security co-operation and economic co-operation simultaneously, secure mutual support among the policy objectives of counter-terrorism, maintenance of stability and common development, expanding co-operation with Central Asian countries and also with Russia (Zheng, 2007).

Chinese leaders also emphasise that their Central Asian policy would concentrate on economic co-operation and would involve, to a certain extent, security co-operation.

The above policy outline contains elements of China's general policy framework with a strong appeal to the developing countries of the region and a message that China will limit its claims to regional and global hegemony. Essentially, it follows the Five Principles of Peaceful Coexistence and China's position on the settlement of border disputes.<sup>2</sup> Finally, there are also features which specially cater for the situation in Central Asia and which attempt to provide reassurances for Russia.

In the early 1990s, when Chinese leaders began to engage with the republics of Central Asia, they gradually accepted that regionalism had become an inevitable trend. As a result, China had to be prepared to actively participate in regional organisations and practice multilateral diplomacy. Obviously the regional organisations most important to China are those in Asia. While China slowly became more involved in the Association of South East Asian Nations (ASEAN) Regional Forum (ARF), the Shanghai Co-operation Organisation (SCO) was very much the brainchild of the Chinese leadership.

On the basis of the achievements in its approach to Central Asia in the 1990s, China was able to take the lead in June 2001 to formally establish the SCO involving China, Russia, Kazakhstan, Tajikistan and Uzbekistan. Since then, the SCO has evolved into an economic, energy and security forum. In contrast to the ARF, the SCO has been more ready to engage in institutional development. In the third Heads of State meeting in Moscow in May 2003, agreement was reached on the establishment of a General Secretariat (with a budget and a Secretary-General) in Beijing and an anti-terrorism centre in Tashkent. There have been regular meetings at the foreign minister, prime minister and head of state level. In the July 2005 meeting, Iran, Pakistan, India and Mongolia were invited to take part as observers, a possible sign of ambitious expansion plans for the organisation.

This article intends to examine China's objectives in establishing the SCO, its future plans for the development of the SCO in the context of its policy towards Central Asia, its approach in dealing with other powers in the region, the difficulties it has encountered and its efforts to mitigate them.

### **Historical Background and China's Objectives**

When the Soviet Union disintegrated at the end of 1991, the Chinese government promptly recognised the Russian Federation and the other eleven republics. Diplomatic relations with them were established rapidly. The Chinese government actively cultivated good relations with these countries and offered them loans and commodity credits. Leaders from these countries were invited to visit China and, in 1992-93, there were top leaders from these countries visiting Beijing almost monthly (Qu, 1994: 21). In 1994, then Premier Li Peng visited Uzbekistan, Turkmenistan, Kyrgyzstan, Kazakhstan and Mongolia. During the visits, he enunciated the four major principles governing China's relations with the Central Asia republics. They were: to maintain good-neighbourly relations and peaceful co-existence; to promote equality and mutually beneficial co-operation in pursuit of common prosperity; to respect the sovereignty and independence of the peoples of Central Asia through a policy of non-interference in their internal affairs; and to seek and preserve stability in the region (cited in Qian, 1995: 5). Li Peng's visit was followed by that of President Jiang Zemin to Uzbekistan, Kyrgyzstan and Kazakhstan in July 1996. Joint statements were concluded with all three governments during Jiang's visit.

In the eyes of the Chinese leadership, the break-up of the Soviet Union left a security vacuum in Central Asia, which was exacerbated by the ongoing war in Afghanistan and the spread of radical Islam. To reinforce these fears, a civil war erupted in Tajikistan in 1992 when an Islamic opposition challenged the government. Chinese leaders were concerned with the potential "Balkanisation" of Central Asia which would adversely affect stability and security in the ethnically-troubled Xinjiang province and other western provinces (Sutter, 2005: 249-53).

An analysis of diplomatic documents indicates that China wanted friendly, good-neighbourly relations with the Central Asian republics and was concerned to eliminate any concerns these new states had about having a major socialist power along or not far from their borders.<sup>3</sup> There was the usual concern over Taiwan, with China's diplomatic relations with the Central Asian countries meaning that they would not seek formal ties with "the renegade province." The Chinese authorities also succeeded in securing the recognition and acceptance of agreements reached in past Sino-Soviet border negotiations from Kazakhstan, Kyrgyzstan and Tajikistan which share a common boundary with China. In return, China offered limited economic assistance.

What is more interesting is that in the significant bilateral agreements concluded between China and the Central Asian republics in this 1991-97 period, there were two types of provisions. The first was that both parties pledged that they would not take part in hostile actions directed against the other party; and that they would not allow any third country to use their respective territories to damage the other party's sovereignty and security interests. The second was that both parties opposed any form of ethnic separatism, and would not allow any organisation or force to engage in separatist activities directed against the other party within their respective territories; both parties also declared that they would not incite contradictions among states, ethnic groups and religions. These provisions were considered to reflect mutual interests in the combating of ethnic separatism, religious extremism and international terrorism (Cheng, 2008; Qu Xing, 1994).

Settling the border issue was certainly the key to their good-neighbourly relations. In May 1991, China and Russia signed an agreement concerning the eastern section of their boundary. In October 1992, China on one side, and Russia, Kazakhstan, Kyrgyzstan and Tajikistan on the other, began border negotiations.<sup>4</sup> In April 1994, China and Kazakhstan concluded a border agreement during Premier Li's visit; the agreement was then ratified by their respective legislatures and became effective in September 1995. In July 1996, China and Kyrgyzstan signed a border agreement during President Jiang's visit, and the agreement became effective in April 1998. Joint boundary demarcation committees were then established to complete the respective boundary demarcation work. Border negotiations between China and Tajikistan proved more complicated as the territories in dispute amounted to 28,000 km<sup>2</sup>, about 20% of Tajikistan's total area; and, furthermore, the latter was also preoccupied with its civil war (Tang, 2000: 528, 693).

It was on this basis that the heads of state of these five countries met in Shanghai (the "Shanghai Five") in April 1996 and concluded an agreement to build confidence in the military sphere along their borders. The governments agreed to notify one another of important military activities undertaken within 100 km of China's border with the other four countries as well as exchange information on the troops and military equipment deployed (see Center of SCO Studies, 2003: 1). One year afterwards, the heads of state met again in Moscow and concluded an agreement to mutually reduce the total deployment of troops to a maximum of 134,000 within 100 kilometres of China's border with the four countries (see Center of SCO Studies, 2003: 2). The foundation in the annual summits of the "Shanghai Five" was thus laid for the establishment of the SCO four years later.

Economic co-operation and trade were important aspects of China-Central Asia relations. Bilateral economic and trade agreements were signed between China and Uzbekistan, Tajikistan, Kyrgyzstan and Turkmenistan, respectively, the day after the release of their respective joint communiqués on the establishment of diplomatic relations. But progress in these areas was initially limited. Experts in China admitted that Central Asia was not a diplomatic priority for China as it was preoccupied with difficult adjustments in relations with the US as well as with the containment of Taiwan's pro-independence orientation. In China's relations with the Commonwealth of Independent States (CIS), China concentrated on strategic co-operation with Russia, as Chinese leaders accorded a priority to the promotion of multipolarity then. In terms of resource diplomacy, again the Chinese authorities first targeted Russia for oil and natural gas. The Chinese foreign-policy establishment lacked expertise in Central Asia and the major state-owned enterprises did not have any major foreign investment plans at this stage. Economic and social instability in Central Asia was also a disincentive for Chinese enterprises to set up in the region.

However, in September 1997, China and Kazakhstan signed two agreements worth US\$9.5 billion for the development of two major oil and gas fields and the construction of two pipelines in Kazakhstan during the visit of Premier Li and Vice-Premier Li Lanqing. One pipeline was to cover 3000 km to western China and the other would extend 250 km to the Turkmen border and be connected to another pipeline into Iran (Sutter, 2000: 142). China's experts on Central Asia considered this a significant event, as it marked the beginning of an enhancement of China's co-operation with the region in the energy and trade sectors. In 1993, China became

a net oil importer; at the same time Chinese leaders attempted to accelerate the development of China's western provinces. Central Asia hence became a much more important economic partner.

A significant deepening of relations came with the rise of the Taliban and events in Afghanistan that prompted Chinese leaders to switch their attention to the entire Central Asian region instead of just concentrating on border issues. Ethnic separatism, religious extremism and international terrorism were perceived to be a severe threat. Meanwhile, as the Central Asian economies improved, and the prospects for trade, investment and economic co-operation became brighter; China stepped up its aid commitments to the region (see below).

In line with the concern for the USA's "containment" of China after the Tiananmen crackdown and the end of the Cold War, China carefully monitored the growing Western economic and military presence in Central Asia. It strongly criticised a military exercise in Kazakhstan and Uzbekistan in September 1997, sponsored by the Partnership for Peace, involving the Central Asian Peacekeeping Battalion and troops from four countries, including Russia. The Chinese authorities were sensitive to the long-distance air transport of 500 US soldiers to Kazakhstan in the exercise; as they were naturally worried about the expansion of US influence in the region, exploiting the opportunity offered by the break-up of the Soviet Union (Wan, 1997). To this point, Beijing had considered the power balance in Central Asia to be in Russia's favour and advantageous to China's own security, and it was worried that Russia might be too weak to stand up to the eastward expansion of the North Atlantic Treaty Organization (NATO), incorporating the former republics of the Soviet Union. However, it was cautious to avoid alienating Russia through expanding China's influence in the region.

As China's ties with Central Asia strengthened, the two parties also began to co-ordinate in international affairs. For example, China and the Central Asian republics jointly condemned the Indian nuclear test in May 1998. Regarding the war in Kosovo in 1999, there was joint advocacy for the respect for state sovereignty and against interference in another country's domestic affairs. Moreover, they opposed "humanitarian intervention" and the position of "human rights above state sovereignty" (Komissina and Kurtov, 2003: 31). They were concerned about the escalation of the conflicts in Afghanistan in the latter half of the 1990s and jointly argued that the "six plus two" mechanism within the United Nations framework – referring to China, Uzbekistan, Tajikistan, Turkmenistan, Pakistan and Iran plus the USA and Russia – should be an important channel in securing a peaceful resolution in Afghanistan. In response to the Taliban's power consolidation in 1998, the "Shanghai Five" summit the following year endorsed a proposal from Kyrgyzstan to set up an anti-terrorism centre to co-ordinate the measures adopted by the five countries (*Renmin Ribao*, 16 June 2001).

China also indicated support for the various regional security initiatives proposed by the Central Asian republics, including the Asian Mutual Co-operation and Confidence Measures Conference initiated by Kazakhstan,<sup>5</sup> the Tashkent Forum on Central Asian Security and Co-operation Issues as well as the Dialogue on the Central Asian Nuclear-free Zone proposed by Uzbekistan in 1993, and the Lake Issyk-Kul Forum called for by Kyrgyzstan in 1995. These gestures of support proved to be valuable in facilitating the establishment of the SCO.

Finally, border negotiations continued to progress, reflecting a strengthening of mutual trust between China and its Central Asian neighbours. Two supplementary border agreements were concluded between China and Kazakhstan in September 1997 and July 1998; and, in November the following year, during President Nursultan Nazarbayev's visit to Beijing, a joint communiqué declaring the complete settlement of the border issue was announced. Similarly, a supplementary border agreement between China and Kyrgyzstan was signed in August 1999, representing the final resolution of the border question. In the same month, Imamali Rakhmonov, president of Tajikistan, visited China and the two countries concluded a border agreement.

### **SCO and the Major Powers in Central Asia**

#### *China*

The increasing significance of Central Asia to China and its strengthening ties with the region prompted Beijing to initiate the establishment of the SCO. In the fifth summit of the "Shanghai Five" in Dushanbe in July 2000, China's then president Jiang suggested transforming the "Shanghai Five" annual summits into a regular and institutionalised mechanism for regional co-operation (Ma, 2002: 216). As a result, the SCO was formally established in Shanghai on 15 June 2001 with the inclusion of Uzbekistan, granted observer status in the previous "Shanghai Five" summit, as a formal member. The six heads of state concluded the "Declaration on the Establishment of the SCO," and the "Shanghai Convention on the Combat of Terrorism, Separatism and Extremism" (see Center of SCO Studies, 2003: 17-25). This was the first time that China became a member of a formal regional organisation which was not exclusively an economic group.

China's Central Asian experts admitted that the momentum for China-Central Asian co-operation encountered a setback after the September 11 incident, and China had to adjust its policy towards Central Asia. In the first place, the stationing of US troops in Central Asia offered more strategic space for the Central Asian republics, and they adopted a more balanced approach towards various major powers. They attempted to strengthen their relations with the USA to secure more political support and economic assistance, and they appeared less enthusiastic in co-operating with China. Indeed, these Chinese experts believed that Central Asian co-operation with the USA in combating terrorism saw security co-operation with China weakened, threatening the very survival of the SCO. When these states decided to accept the deployment of US troops in their territories near their borders with China in the autumn of 2001, they had not consulted China, demonstrating the ineffectiveness of their established bilateral political and military co-operation mechanisms as well as those within the SCO framework (Zheng, 2007: 62-3). The USA's impressive military prowess demonstrated in the initial invasion of Afghanistan and the substantial security assistance offered strongly appealed to the Central Asian governments, which recognised that the USA would be a permanent and significant factor in the regional balance and that it could allow them to reduce their dependence and subordination to Russia.

China's official response was to strengthen its political ties with the region and engage in competition with the USA in a low-key, non-confrontational manner. In May 2002, Tajikistan's President Rakhmonov visited China, and the two states released a joint statement. In the following June, Kyrgyzstan President Askar Akayev, visited Beijing, and the two countries concluded a treaty of co-operation. In December 2002, Nursultan Nazarbayev, president of Kazakhstan, visited and the two countries also signed a treaty of co-operation. In July 2005, Chinese President Hu Jintao returned the latter visit, and the two states upgraded their relationship to one of strategic partnership. In June 2004 and May 2005, the heads of state of China and Uzbekistan exchanged visits and the two countries concluded a treaty on their partnership relationship of friendship and co-operation (*China Daily*, 9 June 2010). Besides the bilateral summits, within the SCO framework, there were annual meetings of heads of state and those of prime ministers.

Final touches were made on the border issue in the early years of the new century. In May 2002, China and Tajikistan signed a supplementary border agreement; and, in September 2004, China and Kyrgyzstan concluded a protocol on the demarcation of the boundary. At this point, the demarcation of the 3300 km boundary between China, Kazakhstan, Kyrgyzstan and Tajikistan was completed. China also worked hard to promote exchanges among political parties, government ministries, local governments and civic groups.

Economic co-operation was also expanded, especially in the energy sector which included the construction of pipelines, development of oil fields, increase in investment and so on. China's trade with the five Central Asian countries increased from US\$0.46 billion in 1992 to US\$8.73 billion in 2005 (Table 1). At the beginning of 2006, China's cumulative investment in Central Asia amounted to almost US\$7 billion (Table 2), mainly in oil and gas, transport, communications, agriculture, chemical industries, railways and locomotives, electricity generation plants and equipment, urban infrastructural projects, labour services in engineering projects, etc. In line with the expansion of economic exchanges, China also stepped up its provision of aid and preferential loans.

To combat terrorism and separatism, China concluded some related agreements with the Central Asian governments aimed at the promotion of co-operation, the conducting of joint exercises, the sharing of intelligence and similar initiatives. China also offered limited amounts of military equipment in support of regional anti-terrorism activities. At the same time, co-operation in non-traditional security areas was enhanced, including combating the narcotics trade, smuggling and illegal immigration.

What turned the diplomatic tide in favour of China's position and influence in the region were the "Rose Revolution" in Georgia in 2003 and the "Orange Revolution" in Ukraine in 2004. The regimes in Central Asia worried about the spread of these "Colour Revolutions" and resented the democracy promotion efforts of the USA and other Western countries in the region. In response, these regimes turned back to China and Russia. After the Andijan protests in Uzbekistan in May 2005, China promptly showed its support for President Islam Karimov when the USA and other Western governments called for an independent inquiry into the state's violent suppression in eastern Uzbekistan. As an indication of its strong support for

**Table 1.** China's and Russia's trade with the five Central Asian republics, 1992–2008 (in US\$ million)

Year	Kazakhstan				Kyrgyzstan				Tajikistan				Turkmenistan				Uzbekistan			
	China		Russia		China		Russia		China		Russia		China		Russia		China		Russia	
	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	Trade Balance	Total Trade Balance	
1992	368	-86	-	-	-	-	3	1	-	-	-	-	-	-	-	-	-	-	-	
1996	459	-269	5568	-484	106	32	286	16	4	239	63	11	5	209	-32	187	-111	1731	429	
2001	1289	-633	4378	710	119	35	144	22	10	0	198	-60	32	30	178	100	59	944	-216	
2002	1956	-754	4355	469	202	90	178	30	13	1	133	3	88	86	175	111	131	77	795	
2003	3278	-155	5932	608	314	176	263	57	39	3	196	60	83	75	249	193	347	-53	983	
2004	4498	-74	8105	1191	603	383	415	115	69	39	259	107	99	71	285	199	575	-231	1379	
2005	6801	997	9739	3319	971	761	542	252	158	130	335	145	109	71	301	147	681	-221	1763	
2006	8359	1145	12,794	5146	2226	2000	755	367	324	288	502	252	178	146	308	150	972	-160	2376	
2007	13,866	1028	16,556	7312	3779	3553	1169	589	524	504	769	445	351	253	453	315	1129	403	3193	
2008	17,552	2097	19,731	6991	9333	9091	1803	819	1500	1459	1003	585	830	774	910	710	1607	949	3360	
2009	14,129	1537	-	-	5330	5232	1407	1036	-	-	-	-	957	880	1921	1219	-	-	-	

A dash indicates that the statistical data are unavailable, unknown or negligible.

*Source:* Figures for 1992 were from Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Republic of Kazakhstan (2008) and Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Republic of Tajikistan (2004); figures for 1996–2007 were from IMF Statistics Department (1997 and 2008); figures for China for 2008 were from State Statistical Bureau (2009); and figures for Russia for 2008 were from Federal State Statistics Service (2009a).

**Table 2.** China's and Russia's investment in the five Central Asian republics, 2000–08 (in US\$ million)

Year	Kazakhstan			Kyrgyzstan			Tajikistan			Turkmenistan			Uzbekistan		
	China Investment	Russia Investment		China Investment	Russia Investment		China Investment	Russia Investment		China Investment	Russia Investment		China Investment	Russia Investment	
2000	–	3.45		–	0.01		–	–		–	2.93		–	15.03	
2001	(211.90)	211.60		–	–		–	–		–	–		–	–	
2002	(64.73)	214.45		–	–		–	–		–	–		–	–	
2003	2.94 (248.61)	197.56		2.44	–		–	–		–	–		0.72	–	
2004	2.31 (387.80)	200.60		5.33	–		4.99	–		–	–		1.08	–	
2005	94.93 (195.00)	223.00		13.74	1.25		0.77	0.50		–	–		0.09	155.18	
2006	46.00 (359.50)	487.50		27.64	–		6.98	–		–0.04	–		1.07	–	
2007	279.92 (351.50)	445.07		14.99	207.72		67.93	105.68		1.26	–		13.15	513.58	
2008	496.43	762.16		7.06	386.03		26.58	171.96		86.71	6.36		39.37	2,397.85	

A dash indicates that the statistical data are unavailable, unknown or negligible. Figures in parentheses are from the *Statistical Yearbook of Kazakhstan*, various issues. *Source:* Ministry of Commerce et al. (2009), Federal State Statistics Service (2009b) and Agency on Statistics of the Republic of Kazakhstan (2003, 2005, 2008).

President Karimov, when he later visited Beijing on 19-20 April, he was offered a US\$600 million contract for an oil and gas joint venture with China.

### *Russia*

China's approach to Central Asia has demonstrated considerable respect for Russian interests in the region. In the eyes of China's experts on the region, it is believed that Russia's regional policy has gone through three stages. In the first stage (1991-95), Russian leaders were keen to reduce their economic burden in the region and concentrated on building a collective security treaty system on the military front. In the second stage (1995-2001), the Russian leadership began to adjust its foreign policy because its enthusiastic approach to the West had not been reciprocated; instead the eastward expansion of NATO was exerting pressure on Russia's attempt to maintain its sphere of influence. In this period, the USA and the European Union (EU) stepped up their efforts to enhance their influence in Central Asia, while the situation deteriorated in Afghanistan. In September 1995, President Boris Yeltsin endorsed a strategic guideline on the Russian policy towards the Commonwealth of Independent States (CIS), the comprehensive development of relations with the Central Asian countries being regarded as a cultivation of the strategic foundation for the restoration of Russia's major power status.

The third stage began with the establishment of SCO in 2001. The Russian leadership accepted the SCO probably because it perceived that the involvement of China might balance the rise of Western influence in the region. However, it had no intention to allow China to dominate the SCO nor let it develop into the most important multilateral organisation in the region. Just a few days after the 11 September terrorist attack, China's then Premier Zhu Rongji, in the SCO prime ministers' meeting in Almaty, proposed the enactment of the SCO Charter and the establishment of an anti-terrorism centre in Bishkek. While the Kazakhstan delegation initially stressed that the SCO should focus mainly on economic co-operation and Russia argued that the CIS already had an anti-terrorism co-ordinating body, both were won over by China (Pan, 2001: 38-9).

Russia has attempted to expand its trade with Central Asia, seeing it increasing from US\$5.46 billion in 2002 to US\$13.23 billion in 2005 (Table 1). It enhanced co-operation in the energy sector and tried to secure a monopolistic position in the regional energy network. It also waived Tajikistan's debts and increased aid to the region. In October 2004, Russia formally joined the Central Asian Co-operation Organisation, terminating the Central Asian states' endeavour to push for economic integration excluding Russia. Though Russia allowed the USA and the anti-terrorism coalition the use of land and air corridors in Central Asia in the war in Afghanistan, the USA did not make use of the Collective Security Treaty Organisation, led by Russia, to co-ordinate its anti-terrorism operations in the region and, instead, chose to establish direct military ties with Uzbekistan, Kyrgyzstan and Tajikistan. Russia also failed to make the CIS Anti-Terrorist Centre in Moscow effective.

According to the analysis of China's experts, it was also NATO's eastward expansion and the "Colour Revolutions" which convinced President Vladimir Putin that the USA was working hard to prevent the revival of Russia as a major power.

Resistance against pressure for democratisation following the “Colour Revolutions” became a priority for Sino-Russian co-operation, and the SCO was thus perceived as the most significant mechanism for collaboration and deterring more “Colour Revolutions.” In this desire, Russia’s caution about SCO was reduced, and the acceptance of China’s prominent role in the regional organisation correspondingly enhanced (see, for example, Li, 2007; Pan and Hu, 2006; Wu, 2006).

As evidence of this change, experts point to the 20 May 2005 roundtable discussion on improving the SCO, held in Russia, where it was stated that

raising the SCO’s functions is in accord with Russia’s interests, it is a significant focal point of Russia’s international activities in the coming decade, and shaping the SCO as one of the centres in a multi-polar world is an important objective of Russian diplomacy (Wu, 2006: 6).

Further evidence is seen in the observation that, before July 2005, Russian authorities refused to refer to the head of the SCO secretariat as Secretary-General. Instead, in Russian, they referred to an Executive Secretary. The change took place at the July 2005 SCO summit and was included in the “SCO Heads of State Declaration.”

In the July 2005 SCO summit in Astana, President Karimov of Uzbekistan proposed the withdrawal of US forces from the SCO region and this was strongly supported by China and Russia. The summit also decided to invite President Mahmoud Ahmadinejad of Iran to attend the SCO summit in 2006 as Head of State of an observer member. These two decisions generated speculation that SCO might develop into an anti-US alliance (Cooley, 2009). However, Chinese experts opined that this would be an exaggeration because China did not want the SCO to be directed against any third party and Russia shared this position. Both the Russian and Chinese leaderships understood that the SCO had neither the political will nor the military capability to take over the USA’s role in Afghanistan and, therefore, could not afford to demand the withdrawal of the USA from Central Asia.<sup>6</sup> The resurgence of the Taliban since the middle of the previous decade was definitely considered a more serious threat than US military pressure in Central Asia.

### *The USA*

China’s international relations experts and the intelligentsia have generally believed that the USA would like to maintain its global hegemony and would prevent the emergence of any other power capable of challenging it (Zhang, 2004). It would prefer Russia be a democracy, gradually reducing any imperialistic ambitions, and be willing to maintain good relations with Europe (Brzezinski, 1998). In fact, NATO’s eastward expansion and the “Colour Revolutions” in the former-CIS region were both believed to be directed against the revival of Russia as a superpower (Baranovsky, 2001). In Central Asia, the USA has been working on expanding its influence in recent years and has maintained the mission of exporting democracy to the region.<sup>7</sup> In the decade of 1993–2003, the USA provided the CIS states with US\$9 billion for promoting political reforms. According to the Advance Democracy Act passed by the US Congress in 2005, the USA assumed a “sacred mission” of

transforming partially democratic states into fully-fledged democracies. Clearly, the Central Asian republics were in this target category. The Chinese Communist regime, ever since the fall of the Berlin Wall in 1989, has viewed such a democratisation agenda as a severe security threat as it has always been concerned with the American policy of “peaceful evolution.”

Moreover, there emerged a new issue of oil security. Chinese experts argue that the USA has no urgent need of oil from Central Asia. Hence, US manoeuvring in the region is, primarily, about the US strategy to manipulate and control other powers and rivals, in particular, the rapidly industrialising and rising China. During the Cold War era, Chinese leaders considered Europe the focus of superpower rivalry. In the Middle East, the USA wanted to control oil supplies in order to ensure its domination of Europe which was heavily dependent on oil imports. China's international relations experts are inclined to still follow this line of thinking. The USA's control of Central Asia would help to guarantee a stable oil supply to satisfy the needs of the Western world and would serve as an insurance against the erosion of the USA's hegemony in the Middle East.

Much has been written about China's oil needs, oil imports and supply routes. It is estimated that the share of China's oil imports from the CIS would rise from 10.1% in 2004 to 28.9% in 2015 (Wang, 2009: 100). It is also significant that oil from the CIS does not have to pass through the easily controlled, busy and costly Malacca Straits. Hence, American oil companies investing in Central Asia tend to be perceived as depriving China of the oil it needs for sustainable economic development in the future.

Chinese leaders consider that Central Asia became a new focus of the USA's global strategy only after the September 11 incident, based on the analysis of the Central Asian policy of successive American administrations. When the Central Asian republics became independent in 1991, the position of the George W. Bush administration was to support their independence, encourage denuclearisation and promote co-operation in various fields. The major concern of the Bush administration then was that these new states would be controlled by the neighbouring powers, especially Russia and Iran (Nichol, 2006). In February 1992, then Secretary of State James Baker visited the five countries and embassies were soon established. China's experts noted that the latter all had defence attaché offices. After Congressional approval of the Freedom Support Act in the following October, aid began to be offered to the region. In 1992-93, the USA also concluded bilateral trade agreements with all five countries. Apparently oil was not yet considered an important factor, as reflected by the small amount of its oil imports from and energy investment in this region at this stage.

As discussed earlier, the military exercise termed the “Partnership for Peace” in September 1997 caught the attention of Beijing, which believed that the exercise signalled that the USA's Central Asian policy reached a new stage. In March 1999, Stephen Sestanovich, the ambassador responsible for CIS affairs, in his testimony to the US Congress, explained the objectives of the Clinton administration's Central Asian policy as follows: (i) democratisation; (ii) market-orientated reforms; (iii) involvement in the Western political and military mechanisms to a greater extent; and (iv) adopting a responsible attitude in the combat of the proliferation of weapons of mass destruction (WMD), terrorism, the narcotics trade, etc. (Nichol, 2001). China's

experts considered that the progress achieved in the eastward expansion of NATO earlier allowed more resources and attention devoted to CIS issues on the part of the Clinton administration. The termination of the civil war in Tajikistan in 1997 most likely also reduced the Clinton administration's worries about involvement in the region as it had wanted to avoid commitment through taking sides in a civil war.

In 1997, the USA concluded new military co-operation agreements with Uzbekistan and Kazakhstan; subsequently, the USA offered military transport vehicles to Uzbekistan and coastal defence boats to Kazakhstan and Turkmenistan. Since 1999, the US Central Command has assumed responsibility for the military situation in Central Asia. When the US Secretary of State, Madeleine Albright, visited Central Asia in April 2000, she announced the implementation of the "Central Asian Border Security Initiative," offering an additional US\$3 million to each of the Central Asian republics (Bureau of European and Eurasian Affairs, 2003).

Oil began to become an important consideration of the USA. In February 1998, the Sub-committee on Asian and the Pacific of the House Committee on International Relations conducted hearings on the interests of the USA in Central Asia, and their focus was the energy policy of the USA in the region, reflecting governmental and corporate interests in the regional oil resources. The sub-committee chair, Doug Bereuter, indicated that the US policy objectives would include the cultivation of the independence of the regional states and their ties with the West, abolition of the Russian monopoly over the transport routes of the region's oil and gas, promotion of the Western countries' energy security through the diversification of supplies, encouragement of the construction of pipelines to the west bypassing Iran, and opposition to the involvement of Iran in the regional economy (US House of Representatives, 1998). The stepping up of American influence in the region and its intention to compete with Russia probably prompted China to establish the SCO and facilitated the Russian acceptance of China's initiative (Rumer, 2005: 41).

After the 11 September, the Central Asian states declared their approval of the use of their military bases by the USA, making the region significant in the global anti-terrorism campaign of the George W. Bush administration. A. Elizabeth Jones, Assistant Secretary of State responsible for Central Asia, defined the US objectives in the region as follows: (i) prevention of the spread of terrorism; (ii) assistance for the Central Asian republics in the promotion of economic and political reforms as well as the rule of law; and (iii) assurance of the security and transparent development of the energy resources in the Caspian region (Jones, 2001). There is a view that after 11 September, the emphasis of the Bush administration was on the cultivation of the Central Asian countries' anti-terrorism capabilities and not on their democratic and economic reforms; in fact, US officials often exaggerated the progress of their reforms in the latter areas (Wishnick, 2002: 29). In realistic terms, the priorities of the Bush administration were: (i) to establish a military centre in Central Asia to facilitate rapid troop deployment to deal with Islamic terrorism and the military situations in Afghanistan and the Middle East; (ii) to maintain the independence of the Central Asian republics and regional stability; and (iii) to exploit the energy resources in the Caspian region and to ensure their transport through corridors friendly to the USA, e.g. the completion of the Baku-Tbilisi-Ceyhan oil pipeline in May 2005 (Rumer, 2005: 42-4).

In the first term of President Bush, the USA concluded a series of agreements with Central Asian governments to facilitate the long-term, legal stationing of US troops in the region, and to strengthen bilateral military co-operation. Aid to Central Asia increased from 13% in the period 1992-2002 to 27% in 2004 from funding within the Freedom Support Act programme and other sources (Lumpe, 2010).

In the analysis of China's authoritative highly controlled mainstream media reflecting the official view, the Bush administration is seen as having been encouraged by the success of the "Colour Revolutions" in Georgia and Ukraine, and wanted to repeat the model in Central Asia in 2005 when general elections were scheduled in some of the countries (see Li and Chen, 2006). Beijing obviously considered that the Bush administration's campaign encountered severe setbacks in Central Asia. After the suppression of the Andijan protests, in July 2005 the Uzbekistan government demanded the withdrawal of US troops from the Karshi-Khanabad air base within 180 days, terminating the US military presence which had lasted for four years. The newly elected president of Kyrgyzstan, Kurmanbek Bakiyev, emerging from the "Tulip Revolution," rejected a pro-US policy line; in fact, in July 2005, he indicated that the USA and Kyrgyzstan should review the issue of US troops stationed in Kyrgyzstan. The authoritarian leaders believed that the USA had been behind these "Colour Revolutions" and considered the security ties with Washington, a liability rather than an asset.

Chinese experts observed that the US Secretary of State Condoleezza Rice had to engage in self-reflection, admitting that the USA had to recognise the limitations of its power and to remain cautious, and that democracy could not be imposed on others (Rice, 2005). They interpreted this self-reflection as an admission of failure. Subsequently Richard A. Boucher (2006), Assistant Secretary of State for South and Central Asian affairs, indicated that the US policy objectives in the region were security co-operation, commercial and energy interests, and political and economic reforms. China's researchers noticed that political and economic reforms became the third priority instead of the second, compared with Boucher's earlier statement after 11 September (Zheng, 2007: 119). On this basis, the Bush administration was perceived to have considerably toned down its ambition of bringing democracy to Central Asia and began to work to repair its ties with the existing regimes in central Asia.

China's international affairs experts believe that despite the setbacks and adjustments, and as well as the distractions caused by the deteriorations in the nuclear crises in Iran and North Korea, the George W. Bush administration's Central Asian policy in its final phase had gradually developed a comprehensive set of objectives without going through any fundamental change. The USA would continue to support the independence of Central Asian countries, avoiding their control by neighbouring powers including Russia, China and Iran; promote political and economic reforms so as to cultivate the institutional basis transforming the region into a sphere of influence of the USA; successfully combat terrorism and the proliferation of WMD; ensure Central Asia would become an important source of the USA's energy supply in its diversification efforts through investment in the energy sector and the construction of pipelines; and strengthen regional co-operation in non-traditional security issues, such as the elimination of the narcotics trade.

*The European Union*

The EU began to be interested in Central Asia probably earlier than the USA and China. In 1986, it proposed to conclude a “partnership and co-operation agreement” with Uzbekistan. After the break-up of the Soviet Union, the EU concluded bilateral partnership and co-operation agreements with all five Central Asian republics. In the eyes of China’s think-tank researchers, the EU was prepared to offer economic and technical assistance with the objective of promoting human rights and democracy so that the Central Asian governments’ economic policies and legal systems would converge with those of the West. They also observed that when the EU Commission released its strategic framework document on EU’s Asian policy in September 2001, Central Asia was not covered. Instead, it was included in EU’s policy towards the CIS. In fact, the EU’s aid to Central Asia was within its “Technical Assistance in CIS” framework (Li, 2008: especially 48).

In October 2002, the EU Commission for the first time released a strategic document on its Central Asian policy in the following four years. According to the second strategic document in 2007 and the EU Commission’s regional assistance plan covering the period 2007-13, the EU stipulated that human rights, good governance, democracy and social development would be the priorities in EU-Central Asian co-operation. The plan also doubled the EU’s assistance to €750 million to Central Asia for the period. But Central Asia is still not part of the EU’s “Wider European” plan meaning that it is still not a priority in the EU’s global strategy and foreign policy. The EU’s objectives in Central Asia, in the eyes of China’s researchers, are limited to stabilising the political situation, improving the economic environment and strengthening technical assistance. These researchers implicitly place the principal responsibility for the promotion of “Colour Revolutions” in Central Asia on the USA (Li, 2008: 48; *Agence Europe*, 9 June 2007).

In October 2006, Germany’s foreign minister, Frank-Walter Steinmeier, became the first European foreign minister to visit all five Central Asian republics. Germany then had an air force base in Termez, Uzbekistan, used as a staging-post for peacekeepers *en route* to Afghanistan (*Associated Press*, 30 October 2006; *Central Asia News* (Russia), 10 November 2006). In the following March, Steinmeier, EU External Relations Commissioner, Benita Ferrero-Waldner, and EU Special Representative for Central Asia, Pierre Morel, arrived at Astana for talks with Central Asian foreign ministers. These visits reflected the EU’s enhanced interest in Central Asia; and the EU was perceived to try to balance its energy interests with pressure on the authoritarian regimes in Central Asia to improve their human rights records (*Europe Information Service*, 30 March 2007). In terms of the former, the development of a new transport corridor, labelled “Caspian Sea-Black Sea-Europe,” was a priority, and the EU would take part in the construction of additional pipelines and networks for transporting energy resources.

The assessment of China’s researchers was that since 2006 the abrupt severance of natural gas for the EU due to the quarrels between Russia, on the one hand, and Ukraine on the other over transit rights and related compensation has altered the balance, and the energy issue has been given a higher priority (Qian, 2007; *The Guardian*, 7 January 2009). At the same time, Central European countries intended to strengthen co-operation with the EU to balance the influences of Russia and

China. China's Central Asian experts also considered that non-traditional security issues, such as terrorism, religious extremism, illegal immigration, proliferation of WMD and the spread of AIDS, have become increasingly important regional concerns of the EU which seems to have adopted a long-term view of its interests in the region (Li, 2008: 49-53).

## **China, SCO and Economic Co-operation**

### *Significance*

Economic co-operation is the key to the development of the SCO from China's perspective. China's trade with and investment in the SCO member countries remain limited, despite respectable expansion in the past decade (Tables 1 and 2); the potential of co-operation in the energy sector is great. But, more importantly, Beijing policy makers understand that the realisation of other significant objectives of the Chinese Central Asian policy largely depends on achievements in economic co-operation. They believe that stability in Central Asia has to be built on the foundation of economic development. China's influence in the region, as well as maintaining a regional balance of power in its favour, will have to rely on progress in its economic ties with the region. An over-emphasis on the security and military aspects of the SCO may touch on Russia's sensitivities and does not reflect China's "comparative advantage."

Since 1999, Russia and the four Central Asian members of the SCO gradually emerged from the shadow of Russia's financial crisis in 1998. In recent years (2004-07), they all achieved respectable economic growth rates (Table 3). In per capita GDP terms, the figure in 2007 for Russia was US\$2868; for Kazakhstan, US\$2324; for Kyrgyzstan, US\$347; for Tajikistan, US\$262; and for Uzbekistan, US\$783 (Xing et al., 2009: 334-5). In 2008, China's per capita GDP amounted to US\$3000 (*China Insider Briefing*, 2009). Hence, the Chinese government considers regional economic co-operation within the SCO as South-South co-operation (Joint Research Group, 2004: 5).

Given the fact that the four SCO members in Central Asia are similar in economic structure, their economies are competitive rather than complementary as they rely greatly on energy products and are at roughly the same level of development. The major trading partners of China, Russia and Kazakhstan are the developed countries

**Table 3.** Economic growth rates of Russia and the four Central Asian countries, 2004-09

Country/Year	2004	2005	2006	2007	2008	2009
Russia	15	6	8	20	8	-14
Kazakhstan	5	5	19	17	-3	17
Kyrgyzstan	4	-3	1	9	16	5
Tajikistan	7	0	2	7	7	14
Uzbekistan	15	-31				

*Source:* World Bank data, see <http://databank.worldbank.org/ddp/home.do?Step=3&id=4> (downloaded 17 July 2011). Created by World Bank, the website allows us to attain those data by selecting important parameters/variables/attributes.

of the West, and the respective shares of intra-SCO trade for the respective foreign trade of all SCO member countries remain limited. Hence, the promotion of regional economic co-operation remains challenging.

### *Trade Barriers and Trade Facilitation*

At this stage, only China and Kyrgyzstan are members of the World Trade Organisation (WTO), with Russia accelerating its process of joining. Besides China, all other five SCO members are also members of the Eurasian Economic Community (EEC) which merged with the Central Asian Co-operation Organisation in October 2005.<sup>8</sup> EEC is basically a customs union where members waive all tariffs against each other, and their import tariffs are directed against non-members, including China. Besides, Russia also offers aid to EEC members. Central Asian countries have not abandoned their efforts to achieve economic integration, though hitherto progress has been painfully slow; this economic integration objective does not include China.

A study by China's Ministry of Commerce observes that since China's imports from the other SCO members were largely primary products, their tariff rates were substantially below the average rate of 10%. Further, a considerable amount of China's imports from Russia and Kazakhstan entered China through border trade in small quantities; these imports could usually enjoy preferential treatment in the form of reductions in tariffs and half value-added tax offered by China. On the other hand, imports from China on the part of the other SCO members were mainly textiles, apparel and light industrial goods; their import tariff rates were usually above average. For example, Russian tariff rates on imports of textiles, apparel, shoes, toys and household electrical appliances normally fell within the range of 15-20%. Hence the Chinese government believed that high tariff rates constituted an important barrier for China's trade with other SCO members (Joint Research Group, 2004: 9-10).

The Ministry of Commerce's research group also considered that non-tariff barriers remained a serious obstacle to trade expansion among SCO members; and China tried to push for the reduction of non-tariff barriers as a significant focus for co-operation in trade facilitation. The study group adopted a gravity model often used by the OECD and the World Bank to analyse the quantitative impact of customs procedures, regulatory environment, standard conformity and business mobility, on trade facilitation within the SCO. The results of the study released in 2004 show that if the value of the customs procedure variable improves by 10%, intra-SCO trade would increase by US\$10.07 billion; if the value of the standard conformity variable is raised by 10%, intra-SCO trade would rise by US\$10.21 billion; and if the value of the business mobility variable increases by 10%, intra-SCO trade would expand by US\$0.898 billion (Joint Research Group, 2004: 10).

According to the study, a substantial proportion of China's investment in the SCO members was in the sectors of trade, catering, apparel, agricultural plantation and the processing of agricultural products, assembly of household electrical appliances, and the like. These investment projects were small in scale, but their risks were less since they could often recover the capital rapidly. However, their impact on trade expansion was more limited. It was expected that major investment in energy and infrastructural projects in the pipeline would help to increase trade.

### *SCO Free Trade Agreement*

In September 2001, when the prime ministers of the SCO member countries first met in Almaty, it was proposed to set up a meeting mechanism among the economic and trade ministers to discuss regional economic co-operation with a focus on trade facilitation and investment in the transport, energy, agriculture, environmental protection, finance and water resources sectors. In the first ministerial meeting held the following May, it was agreed that trade and investment facilitation would be the initial priorities. China then proposed the establishment of the SCO free trade area (FTA) within 10-15 years. This ambitious goal was incorporated into the "Outline of Multilateral Economic and Trade Co-operation among the SCO Member States (the Outline)" endorsed by the SCO prime ministers conference in September 2003, setting 2020 as the date for realising the free movement of goods, services, capital and technology.

In the SCO summit in June 2004 in Tashkent, President Hu offered US\$900 million of buyers' credit to other SCO members. In the SCO prime ministers' conference the following September, an implementation measures plan for the Outline was approved, including 127 projects in 11 sectors including trade, investment, customs, quality inspection and certification, transport, energy and information technology. Then at the SCO summit in 2006, it was agreed to set up the entrepreneurs' committee and the bankers' committee.

Chinese experts believe that regional economic co-operation within the SCO should adopt a gradualist approach, starting from the removal of non-tariff barriers and obstacles to investment, and concentrating on trade facilitation and investment promotion. It is hoped that the fruits of the first stage of regional economic co-operation may generate broad support for the establishment of the SCOFTA. On this basis, negotiations may begin in 2015 for the realisation of the SCOFTA in 2020 (Jia, 2007: 78). Obviously, if economic co-operation within the SCO proceeds well, there is a possibility that it may also eventually merge with the EEC (Zhang, 2006: 72). In other words, the SCO has to prove its value to its Central Asian members which, at this stage, are keeping their options open.

Chinese policy makers understand the challenge ahead. They realise that the past trade structure with its emphasis on natural resources may exhaust its potential in the future. Moreover, as the less developed Central Asian countries have established their fundamental industrial bases, they would be largely self-sufficient in most consumer goods. China, therefore, has to upgrade its export structure, improve the quality of its consumer goods, cultivate its own famous brands, and so on. More important still, China's major enterprises have to build their own international production chains, with a division of labour among SCO member countries. China also hopes to develop joint ventures in the transport, financial services, information technology and tourism sectors. To strengthen future business networks, China has been offering to train managers and professionals for other SCO members.

### *A New Silk Road?*

Though China's Central Asian experts tend to perceive investment from the USA and the EU in the region as competition, they welcome the latter's "Europe-

Caucasus-Asia Transport Corridor Technical Assistance Plan,” which is commonly known as the Second Eurasian Continental Bridge or the New Silk Road. This plan is a part of the EU’s global strategy whose purposes is to build a trunk route linking Europe and Asia bypassing Russia. It has the political objective of encouraging and supporting the political and economic independence of countries previously within or under the control of the Soviet Union. At this stage, the plan’s members include Ukraine, Moldova, Azerbaijan, Armenia, Georgia, the five Central Asian republics, Bulgaria, Romania, Turkey and Mongolia. The EU has mobilised support from the European Bank for Reconstruction and Development, the World Bank, the Asian Development Bank and the Islamic Development Bank for the project.

Chinese authorities have been keeping a low profile regarding this plan partly because this is an EU project and partly because this adversely affects Russia’s strategic interests. But if the transport corridor is developed, it will facilitate China opening up its market in the Caspian region and Eastern Europe. At this stage, Xinjiang has been closely involved in China’s trade with Central Asia, and Xinjiang is among the less developed provincial units in China. Chinese policy makers hope that the New Silk Road will attract the interest of the coastal provinces to get more involved in the Central Asian market and beyond.

#### *Oil and Gas, and the International Financial Crisis*

In recent years, oil and gas have constituted an important element of China’s relations with Russia and the Central Asian states, and they play an increasingly important role in the trade and investment flows among the countries concerned. Though arguably the energy issue has enhanced Chinese leaders’ enthusiasm in establishing and promoting the development of the SCO, energy negotiations have been bilateral and outside the multilateral organisation’s framework. In the energy market in Central Asia, China perceives the USA and the EU as competitors. In the case of the Russian energy market, Japan and, to a lesser extent, South Korea are also keen competitors (Shen, 2011).

Though China felt let down by Russia in the long negotiations over the Siberia-Pacific coast pipeline to China, the Chinese authorities had not protested publicly (Cooley, 2009). There is a clear understanding that Russia has been trying to maximise its profits in the energy deals. In fact, it was the keen Sino-Japanese competition which provided Russia the opportunity to strengthen its bargaining power.

In the wake of the global financial crisis, the (albeit temporary) fall in energy prices and Russia’s economic difficulties weakened the latter’s bargaining strength. As a result, several major deals were reached in 2009. In February, state-owned OAO Rosneft, Russia’s biggest oil producer, and OAO Transneft, its oil pipeline operator, secured a US\$25 billion loan from the China Development Bank. In return, Russia was to provide China an additional 15 million metric tons of crude oil a year for 20 years, amounting to almost 10% of China’s 2009 volume of oil imports. The loan would allow Rosneft to invest in its relatively undeveloped East Siberian fields and refineries which had been neglected for lack of investment funds; Rosneft realised that it had to step up exploration and exploitation activities to ensure a stable supply in the future. Transneft would also build a 926 km pipeline to link to the Chinese

refineries, which began construction in May 2009 (*The Wall Street Journal*, 18 February 2009; *Ming Pao* [Hong Kong], 12 May 2009).

When the Russian Prime Minister Putin met his Chinese counterpart Wen Jiabao in October 2009, Gazprom and China National Petroleum Corporation reached a tentative gas supply agreement and deals worth US\$3.5 billion. The agreement would lead to Russia supplying 70 billion cubic metres of natural gas per annum to China from Siberia and the Russian Far East, including Sakhalin. China would become the biggest purchaser of Russia's natural gas; at this stage, gas deliveries were scheduled to begin in 2014 or 2015, but prices had yet to be decided in 2010 (*Reuters*, 13 October 2009). Visiting Chinese Vice Premier Wang Qishan subsequently met with his Russian counterpart Igor Sechin in November 2010, on the basis of the Sino-Russian energy negotiation mechanism; and the pipeline began operations soon after. These deals demonstrate that Russia is in need of investment funds to maintain its energy output in the future; and China has foreign exchange reserves in excess of US\$2 trillion looking for investment outlets overseas. However, negotiations will be affected by fluctuating market conditions.

In Central Asia, Kazakhstan is the most important energy supplier for China, making it China's largest trading partner in the region. In September 1997, an agreement was reached to build an oil pipeline from Kazakhstan to China, although the project was put on hold until enough Kazakh reserves could be shown to make it viable. In 2004, China National Petroleum Corporation and Kazakhstan's state-owned KazMunai Gas signed an agreement to complete the remaining 625 mile section of the pipeline from central Kazakhstan to the Chinese border at Alashankou. It was then extended to the city of Dushanzi in Xinjiang (*South China Morning Post* [Hong Kong], 19 May 2004; *The Washington Times*, 20 May 2004). The pipeline started operation in December 2009; and, by February 2011, China had imported 5.82 billion cubic meters of natural gas. China is now the largest consumer of natural gas in the world; and the above pipeline is designed to transport 30 billion to 40 billion cubic metres by 2015. The 1833 km pipeline now runs through Turkmenistan, Uzbekistan and Kazakhstan to China's Xinjing, and is its first large pipeline project to transport natural gas from overseas to meet its demand (*China Daily*, 17 February 2011). Bringing oil from Kazakhstan to the coastal cities in China is relatively expensive.

Turkmenistan, not a SCO member, has also become an important natural gas supplier for China. In June and July 2008, a natural gas pipeline from Turkmenistan to China began construction in Turkmenistan, Uzbekistan and Kazakhstan. In August 2009, when President Hu visited Turkmenistan, agreement was reached to increase exports of natural gas to China from 30 billion cubic metres per annum to 40 billion cubic metres per annum for thirty years (Xing et al., 2009: 35). The above-mentioned gas pipeline has ensured the implementation of the agreement.

In the wake of the global financial crisis which began in 2008, China with its ample financial reserves has emerged as a considerably more important source of investment funds and trade partner, in view of the economic difficulties of Western governments and corporations. China enjoys the advantage too that it is ready to put money into projects which are not necessarily immediately commercially valuable, like roads in Tajikistan, developing oil and gas in Uzbekistan, and others (Parrier, 2010).

The global crisis has prompted the process of the abandonment of the use of the US dollar in the settlement of trade accounts. China and Russia have been actively promoting the use of their own national currencies in the settlement of their trade accounts. Other countries of the BRIC group (an international political organisation of leading emerging market countries consisting of Brazil, Russia, India and China) are also interested (*Ming Pao*, 17 and 18 June 2009). It is likely that Central Asian republics will follow the initiative in a limited way.

Russia has obviously suffered a decline in its economic influence in Central Asia, as the financial crisis hit Russia hard. Beijing's challenge is to ensure that Moscow will not feel too threatened, because the latter still has *de facto* control of the pipeline network coming out of Central Asia. Another challenge for Beijing is to contain the regional economic nationalism which seems to be emerging.

## Conclusion

China's initiative in establishing and promoting the development of the SCO is an interesting case study of China's attempt at regional institution building. Its increasing interest in Central Asia has coincided with its gradual acceptance and rising enthusiasm regarding participation in regional organisations. The "Shanghai Five" mechanism and the SCO were seen by Chinese leaders and policy makers as appropriate mechanisms in pursuing China's multiple interests in the region, including the improvement in Sino-Russian relations. Without the endorsement of Russia, China's approach to Central Asia would have been much more problematic.

The "Shanghai Five" mechanism and the SCO were exceptions in China's diplomacy because they had not been launched as regional organisations with economic co-operation as the principal function (Chung, 2004: 994). However, Chinese leaders soon realised that economic co-operation would be the foundation for the regional organisation as well as the principal channel to ensure China's regional influence. None the less, external events assumed an important role in influencing the SCO's evolution, especially after 11 September and the development of the USA's regional policy.

The Chinese leadership is aware of China's weak projection capabilities in Central Asia and the limited policy instruments available (Liu, 2007). While it has been the principal architect of the SCO, it understands that Russia remains the predominant regional power. Even when the Central Asian republics seek to balance against the Russian influence, they mainly turn to the USA and EU. China's approach to Central Asia has enhanced the options available to the Central Asian countries to maintain a favourable regional balance, but so far they have not been acting in a highly concerted manner when compared with, for example, ASEAN. Turkmenistan prefers to remain more neutral and passive; it is not even a member of the SCO. Kazakhstan, Kyrgyzstan and Tajikistan show more deference to Russian interests; while Uzbekistan, at least before the Andijan protests in May 2005, wanted to maintain a distance from Russia.

Even with regard to regional economic co-operation, the Central Asian republics still entertain the distant goal of regional integration without a role for China. To them, the EEC is more developed and important than the SCO. China's experts

admit that the SCO encounters keen competition and there is a danger that its significance will decline unless it continues to deliver to its member countries.

Despite China's historical relative passivity in regional organisations, Chinese leaders have been skilful in the development of the SCO's institutional framework, and they seem to be getting value for the resources spent. They demonstrated considerable patience when the SCO's development encountered setbacks. In sum, this initiative in regional institutional building has been a successful example of China's development of its soft power (Nye, 2004). But China has to bear the risk of supporting unstable authoritarian regimes, whose collapse may severely undermine its influence in the region.

## Notes

- <sup>1</sup> In January-February 2009, the author visited the Chinese Academy of Social Sciences, Beijing University, the Central Party School, the China Institute for International Strategic Studies, and the Shanghai Institute of International Studies. There were extensive discussions with over 50 academics and research workers on Chinese foreign policy, with a special focus on China's approach to SCO. To facilitate exchange of ideas, they will not be quoted directly. Instead, their views will be summarised and presented as those of the Chinese research community on China's foreign policy and its SCO policy.
- <sup>2</sup> The Five Principles of Peaceful Co-existence were jointly initiated by China, India and Burma in 1953-54; initially they were to apply to relations among countries with different social systems. They are: respect for territorial integrity and sovereignty, non-interference in domestic affairs, equality and mutual benefit, non-aggression and peaceful co-existence.
- <sup>3</sup> The Policy Research Office of the Chinese Ministry of Foreign Affairs publishes an annual report in Chinese, *Zhongguo Waijiao* [China's Diplomacy], through the Shijie Zhishi Chubanshe in Beijing. In every report, there is a chapter on China's relations with the Eastern European and Central Asian countries. This series of publications offers a good starting point for an analysis of SCO policy.
- <sup>4</sup> After the break-up of the Soviet Union, the 3300 km western section of the Sino-Soviet border became the boundary between China and four countries: China and Kazakhstan share a boundary of 1770 km, China and Kyrgyzstan have a 1096 km boundary, and China and Tajikistan share a 430 km border. The fourth border is between China and Russia.
- <sup>5</sup> In 1996, seventeen states participated in the conference and drafted the basic document. The first CICA summit was held in 2002.
- <sup>6</sup> See the respective chapters on China's relations with the Eastern European and Central Asian countries in the recent issues of *Zhongguo Waijiao* (China's Diplomacy).
- <sup>7</sup> The Obama administration continues this policy and its official position is as follows: first, to expand co-operation with Central Asian states to assist coalition efforts in Afghanistan; second, to increase development and diversification of the region's energy resources and supply routes; third, to encourage political liberalisation and respect for human rights; fourth, to foster competitive market economies and economic reform; and, lastly, to prevent the emergence of failed states, or in more positive terms, to increase the capacity of states to govern themselves effectively (see <http://www.state.gov/p/sca/rls/rmks/2010/145463.htm>, downloaded 21 July 2011).
- <sup>8</sup> The EEC has six members. The other member is Belarus.

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