

Dear Colleagues and Friends,

A number of important events with direct implications for China's engagement in Central Asia have occurred since our last issue in May 2007. China seems to be stepping up its activity in the region and this was seen not least in the events surrounding the annual Shanghai Cooperation Organization (SCO) heads of state summit in Bishkek, Kyrgyzstan on August 16. The attendees to this summit included the six heads of state of the SCO member states as well as the heads of state of Mongolia and Iran, while Pakistan was represented by its Foreign Minister and India by its Minister of Oil and Gas. More significantly, both Afghan President Hamid Karzai and Turkmen President Gurbanguly Berdimukhamedov also attended the summit while the UN was represented by Under-Secretary General Lynn Pascoe. This could indicate a more active role for these two former actors in SCO in the future.

Two key documents were signed: the Bishkek Declaration outlining SCO's priorities and future challenges and a Long-term Treaty of Goodneighborliness, Friendship, and Cooperation which yet is to be made public. Considering the alliance-like nature of the previous Treaty on Goodneighborliness, Friendship, and Cooperation adopted in 2001 the new Treaty will certainly be worth a read. Not least because the Treaty signed in 2001 was inked at a time when Russia-China relations were standing at a lower mark than at present. Although the summit in Bishkek dealt with all issues of concern to SCO, including the struggle against "terrorism, extremism, and separatism" as well as military, cultural, and economic cooperation, a major focus was reported to be on energy security and energy cooperation.

The Bishkek Declaration also gave emphasis to energy cooperation in stressing that: "The heads of the SCO member states note the important role of the energy sector as a basis for steady economic growth and security, and attach special significance to strengthening interaction in this direction." Although no major progress was reported to have been achieved in forming the SCO energy club/hub it is clear that energy is set to be an important component in the SCO member states' interaction. As will be noted, this is not to say that the military and security aspects have necessarily decreased in importance, but it definitely points to SCO being more multifaceted than before.

A day after, on August 17, Russian President Vladimir Putin, Chinese President Hu Jintao and the leaders of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan attended the Peace Mission 2007 military exercise in Russia's Chelyabinsk region. The exercise involved mostly Russian and Chinese troops, but also troops from Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. In an exercise lasting two hours, the troops carried out a joint operation to disarm and destroy "a large terrorist organization".

About 4,000 troops, 80 aircrafts, and 500 combat vehicles participated in the joint exercises. China and Russia supplied the 500 combat vehicles together with 1,600 and 2,000 troops respectively. Also participating were two paratrooper companies with around 100 men each from Tajikistan and Kazakhstan, a platoon from Kyrgyzstan, and a group of staff officers representing Uzbekistan. China supplied 46 aircraft, including IL-76 transport-planes and eight JH-7A "Flying Leopard" fighter-bombers. 36 Russian aircraft participated as well, including Su-25 fighters.¹ Not limited to this, China's armed police (PAP) and Russia's interior forces carried out a joint counterterrorism exercise dubbed "Cooperation 2007" in early September. The exercise took place in Moscow, spanned over three days, and was developed in accordance with the principles established by the SCO and other bilateral agreements. Ahead of the Bishkek heads of state summit, the Collective Security Treaty Organization (CSTO) also announced a Memorandum of Understanding (MOU) to be signed between CSTO and SCO, along the lines of other MOUs signed with ASEAN and CIS.

What does all this imply then? Are China and Russia strengthening bilateral ties? Is energy set to become a third major component of SCO activities next to economic/infrastructural cooperation and counterterrorism? Central Asia seems to be an integrated part in this equation, even if not necessarily an equal partner. If China and Russia continue on the current set course, the roles of the US and Europe seem to be much more insecure than before.

The significance of the Bishkek summit should not be underestimated. Despite the absence of any sensational or provocative statements along the lines of the Astana Declaration in 2005—calling for a US departure from SCO member states' territory—the Bishkek Summit, Peace Mission 2007, and other events occurring just after the summit give tentative indications as to the SCO's current dynamics. These revolve partly around pragmatic interests of counter-terrorism and economic development—but more importantly—around internal conflicts on issues of vital national security to both Russia and China, and especially in the energy sector. These are issues in which China and Russia to some extent share interests in, although the competitive component in this relationship appears to have taken precedence.

Spectacularly, only two days after the SCO summit, on August 19, China signed two vital energy agreements with Kazakhstan and Turkmenistan—both directly confronting Russia's interests. The first deal specified the final phase of the Chinese plan for an oil pipeline stretching all the way to the Caspian Sea. Two-thirds of this link has already been completed through the Atasu-Alashankou pipeline and a pipeline stretching from Atyrau to Kenkiyak, while the phase in question consists of a connection between Kenkiyak and Kumkol. Most significant was however the second deal involving the construction of a natural gas pipeline from Turkmenistan to China which, if completed, would essentially break Russia's long held monopoly over

¹ "Peace Mission 2007 and the SCO summit," *PINR*, August 10 2007.

Turkmen gas. Although the deal in itself was no news since it has been circulating for some time, it now seems as if both Turkmenistan and China are intent on finalizing it. The capacity of the pipeline will be around 30 billion cubic meters (bcm) of gas annually and it is set for completion by 2009.²

Considering that Turkmenistan's total extraction only reaches 70 bcm per year, of which 8 bcm goes to Iran and the remaining 62 bcm through Gazprom's network controlled by the Kremlin, the deal is unlikely to go through smoothly without Russian interference. Access to cheap Turkmen gas is critical for Russia's domestic consumption and the ability to free up Russian domestic production for the European market largely depend on Turkmen imports. With China slicing off almost half of Turkmenistan's export capacity, Russia's massive export incomes to Europe are directly threatened.

Although Turkmenistan has also made pledges to construct a pipeline to Russia it is clear that a Turkmen-China pipeline, which today appears very likely, would be built at Russia's expense. In view of the fact that energy is Russia's strongest lever over both Europe and China and the primary means through which it projects its power, not even SCO could act to bridge these conflicting interests. This is not to say that the strong ties that do bind China and Russia—as witnessed with Peace Mission 2007, the accompanying arms-transfers between the two, and large Russian oil exports—should be discarded. But it is to say that China is looking for diversification and to unlock Russia's strategic advantage over Turkmenistan's strategic gas reserves, thereby, in effect, threatening one of the most vital components in Russia's national security.

The driving forces of the SCO may be conceived as evolving around two axes: one internal and one external. The internal drivers can be traced to bilateral relations between China and Russia and their respective relations with Central Asia—primarily so in terms of arms, security assistance, as well as economic and energy spheres of interaction. The external driver is first and foremost the United States but the European Union is also currently aspiring to become a significant player in Central Asia, especially in the energy sector. These two actors' direct interests in the region inadvertently push China and Russia closer and could arguably be one of the few common interests that China and Russia shares.

Externally then, it is clear that the deteriorating situation in Afghanistan leaves SCO with no other option than allowing a continued US presence at Manas air-base in Kyrgyzstan. The SCO knows it cannot guarantee security in Central Asia on its own should violence escalate further in northern Afghanistan. Despite Kyrgyz domestic opposition to the US deployment combined with China, Russia, and Uzbekistan which are all but unhappy with the air-base—the base is still there. Though this could partially be explained by the massive income of US\$ 150 million that Kyrgyzstan derives from the air-base, this is hardly a satisfying explanation for Bakiyev's refusal to

² *Kyivpost*, August 30 2007.

sign the Kyrgyz parliament's decree on expelling the US. Both Russia and China could provide this amount should it be needed. The primary explanation for the continuing presence at Manas should rather be sought in SCO's poor record as a security provider.

Paradoxically, a continued US presence in Central Asia is part and parcel of the glue that keeps the SCO together while the conflicting interests in the energy sector is what drive it apart. With Kazakhstan drifting away from Russia and Turkmenistan following its lead, Russia will not stand idle. How Gazprom and the Kremlin should prevent this from happening will likely be a big headache for Russia's new president in 2008. Another headache will be what lever Russia should use to exert pressure on the Central Asian states when a majority of the energy contracts runs out and are re-negotiated in 2010-2011.

In the wake of the Bishkek summit, it is clear that the SCO and its rapid institutionalization fills an important component in regulating the relations among SCO members and their interests vis-à-vis other actors. It is equally clear, however, that the organization suffers from strains, frictions, and paradoxes. One frequent argument heard is that SCO's primary purpose is for Russia to monitor, and partially regulate, China's engagement with Central Asia whereas China benefits from a forum where this engagement could be "legitimized."

That analysis still seems plausible even though the main conclusion from the Bishkek summit should be that China is asserting its interests, fearing little in the way of Russian reprisals. Turkmen President Berdimukhamedov's presence at the SCO summit, the first of a Turkmen president, and the agreements signed with China a few days later sums up the complexity within SCO well. Moreover, it remains to be seen how far-reaching the Treaty on Good-neighborliness, Friendship, and Cooperation will be. Obvious is, however, that there are various pull and push factors in place that will ultimately decide the content of this document, of which some have been mentioned here. Energy could arguably be singled out as one of the most important sources of friction. Ironically, the Bishkek summit will likely go down in the history books as the summit in which energy security made a serious entry.

We hope you will enjoy your read.

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