

Dear Colleagues and Friends,

We have three consecutive issues with special topics to date. For this issue, and the forthcoming November issue, we have decided to leave the topic open. We encourage all readers to submit interesting, original, and thought-provoking articles relating to China's and Eurasia's security for the upcoming November issue. I am also pleased to announce that the February issue will be guest-edited by Dr. Erica Marat who will devote the entire issue to the role of Military Institutions in Eurasia and the post-Soviet space. All interested contributors should contact her at emarat@silkroadstudies.org with their proposed topics.

The Shanghai Cooperation Organization recently celebrated its 5th anniversary in Shanghai and it is maturing quickly, seemingly with the emerging aim of becoming the dominant organization in the region. This development has sparked heated discussions over the success of SCO, its functionality, not to mention its future orientation. China has especially been singled out as an actor that has sought to use the SCO as a means to advance its interests in the region. Its role in Central Asia has even been debated within the SCO and China has at times been, more or less openly, accused to aspire to dominate the region. However, its intention is mitigated by many factors, such as the lack of financial resources, difficulties in implementing economic cooperation agreements signed among member states and most importantly, its fellow SCO partner, Russia. The SCO's future depends to a large extent on future relations between China and Russia. In many ways, the Sino-Russo relationship is the soft underbelly of SCO. The limitations in cooperation between China and Russia have been raised by some and it does appear that there are more incompatibilities than compatibilities between the two.

There is a growing competition of influence in Central Asia, not only between Russia and China, but increasingly involving India, Pakistan, the European Union and the United States, leading to strained relations in some cases. However, the question remains as to whether a new "Great Game" is developing in the region, or if this is simply friendly, or at least non-military, competition over trade and energy. India, Pakistan and Iran are currently SCO observers, but they aspire to become permanent members of the organization. The current SCO members have been reluctant to accept such a move, partly due to the practical problems this would entail, and possibly because of the geopolitical implications enlargement would bring forth at this junction. In particular, Iran's declaration that it intends to join the SCO is seen as an attempt to draw extra support from Russia and China over its

controversial nuclear program so as to counter pressure from Europe and the United States.

The role of energy resources is a recurring theme that runs through this issue. Many contributors examine the impact energy resources have for the development of the region albeit from different angles, ranging from political governance and market reform issues in resource-rich countries in Eurasia, to the potential threat of a “gas OPEC” in Eurasia, to Turkmenistan’s attempts to break free of Russia’s monopoly on its gas exports by tapping the Chinese gas market, as well as China and India’s reliance on critical sea-lines for energy imports.

Besides the topic of energy in Eurasia, we should also remind ourselves that soft security threats continue to threaten the region and its individual states. Afghanistan’s new record opium harvest looks at first sight to be one of the most important challenges in the area, with decreasing prices on heroin and increased supply flowing through Eurasia. This will impact economic development negatively. An increased illegal sector focused on trafficking and other illegal activities typically follows in the steps of the narcotics trade. They lead to the financing of terrorists, separatists and the cooption of political elites in many of the countries involved. Attempts have been made to offset this progression, but recent developments in the Afghan narco-industry suggest that the international community has failed to counter this threat. Moreover, the social and humanitarian effects on the population are increasingly disturbing. Increased rates of HIV/AIDS seem to be developing in the footsteps of the narco industry. Moreover, the lack of health care and education are increasingly identified as important factors to combat insecurity in the region at large. These are all topics that deserve greater attention.

Finally, on behalf of the CEF team, we hope you enjoy this issue!

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Escaping the Resource Trap: Market Reform and Political Governance in the Resource Rich Countries of Eurasia

*Alan Rousso**

Introduction

Resource rich countries around the world have been reaping the rewards of a commodity boom that has lasted more than eight years and shows no sign of slowing in the near future. Growth, particularly in energy producing countries in Eurasia, has given governments there newfound confidence in how they conduct their domestic and international affairs. Partly through effective macroeconomic management and the creation of stabilization funds, governments in the energy rich countries have thus far seemed to inoculate themselves against the “Dutch disease” – the reduction in competitiveness of manufactured and other tradable goods that comes with increases in the real exchange rate, which in turn undermines growth. So, have the energy exporters in Eurasia – principally Russia, Kazakhstan, Azerbaijan, Uzbekistan and Turkmenistan – finally cured themselves of the “resource curse”?

It is too soon to be optimistic on this score, especially as we have not yet seen how well these countries can withstand a commodity bust. The results of a sharp downturn in world energy prices – which is not inconceivable considering how volatile prices have been over the past, say, one hundred years – could be politically and economically dramatic. Remember the case of the Soviet Union: the oil price boom of the late 1970s gave new life to the stagnant Brezhnev regime, leading to domestic and international adventurism; the drop in world market prices less than a decade later coincided with the collapse of the Soviet empire in eastern Europe and the ultimately the collapse of the Soviet Union itself in 1991. All of these economies are still heavily dependent on their natural resource sectors and related industries for growth.

Whether the resource-rich countries in Eurasia will be able to absorb the shock of a drop in world energy prices depends greatly on the extent

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to which they use the window of opportunity opened by years of economic expansion to introduce a range of structural and institutional reforms which, over time and across the world, have been associated with sustainable growth. These are the kinds of reforms that encourage economic efficiency and the functioning of markets, that allow for the diversification of the economic base, that attract foreign investment and the absorption of new technologies, that reduce the scope for corruption and other forms of misgovernance, that strengthen checks and balances in the political system and uphold the rule of law. So far, the track record in the energy exporting countries of Eurasia on these reforms has been uninspiring.

The Pattern of Market Reform in Energy-rich Eurasia

The transition from planned to market economies in post-communist countries in Eastern Europe and the former Soviet Union has not followed a common path. The speed, sequencing and effective implementation of market reforms in these countries has varied due to factors such as geography, years under communism, political leadership and many others. Still, some patterns are evident when one examines the 15 plus years of transition experience from the Czech Republic in Europe to the Kyrgyz Republic in Central Asia and all points in between. Using the transition ratings from the European Bank for Reconstruction and Development, which tracks reform progress every year across nine transition indicators on a scale of 1 to 4+, it is clear that the countries in the Commonwealth of Independent States (CIS) have lagged well behind the advanced reformers in Central Eastern Europe and the Baltic states (CEB) when it comes to the adoption and effective implementation of structural and institutional reforms that support markets.¹ Within the CIS, some of the most reluctant economic reformers have been the oil and gas-producing countries such as Russia, Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan (RAKTU).

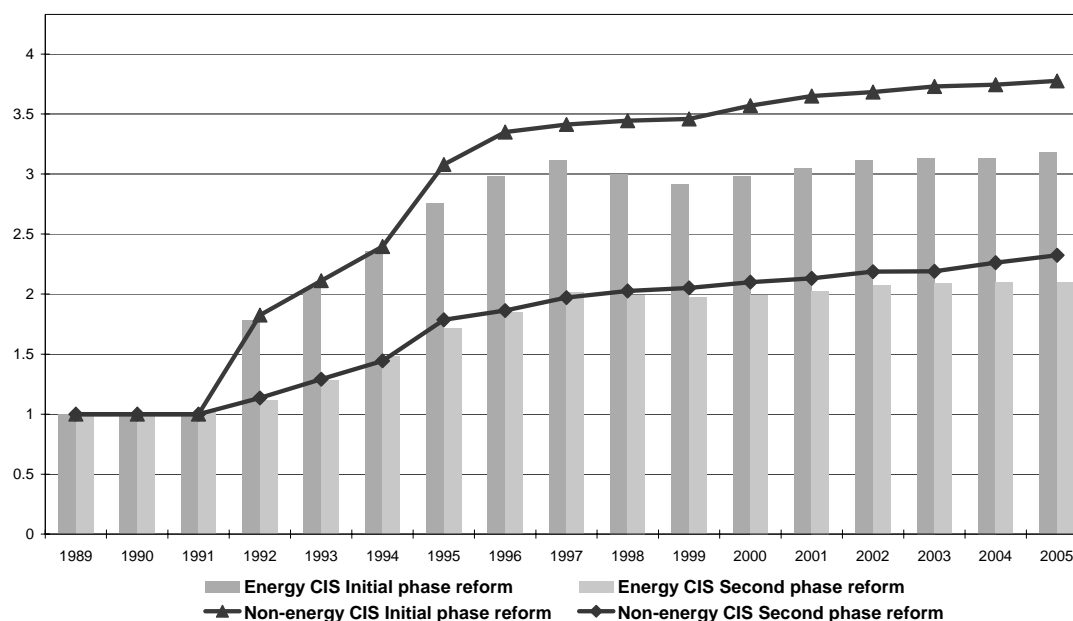
In every year since 1992, the non-energy producing countries in the CIS – which started out with many of the same initial conditions as the rest of the former Soviet states – have outpaced the energy producers in both early phase liberalizing reforms (price and trade liberalization, small scale privatization) and later phase institutional reforms (financial sector, governance and enterprise restructuring, infrastructure and large scale privatization). By 2005, the non-energy producers had an average transition score in early phase reforms of around 3.8 out of a total 4.3 (4+),

¹ For the most up-to-date rating on progress in economic transition for each of the 29 post-communist countries in Central and Eastern Europe and the Baltic States (CEB), Southeastern Europe (SEE) and the Commonwealth of Independent States plus Mongolia (CIS/M), see EBRD, *Transition Report 2006* (forthcoming, November 2006).

compared to an average score of around 3.2 for the energy producers. In second phase reforms, the non-energy producers had reached an average score of around 2.4 by 2005 compared to a score of around 2.1 for the energy producing countries (see Chart 1).

Chart 1: Patterns in Reform 1989-2005

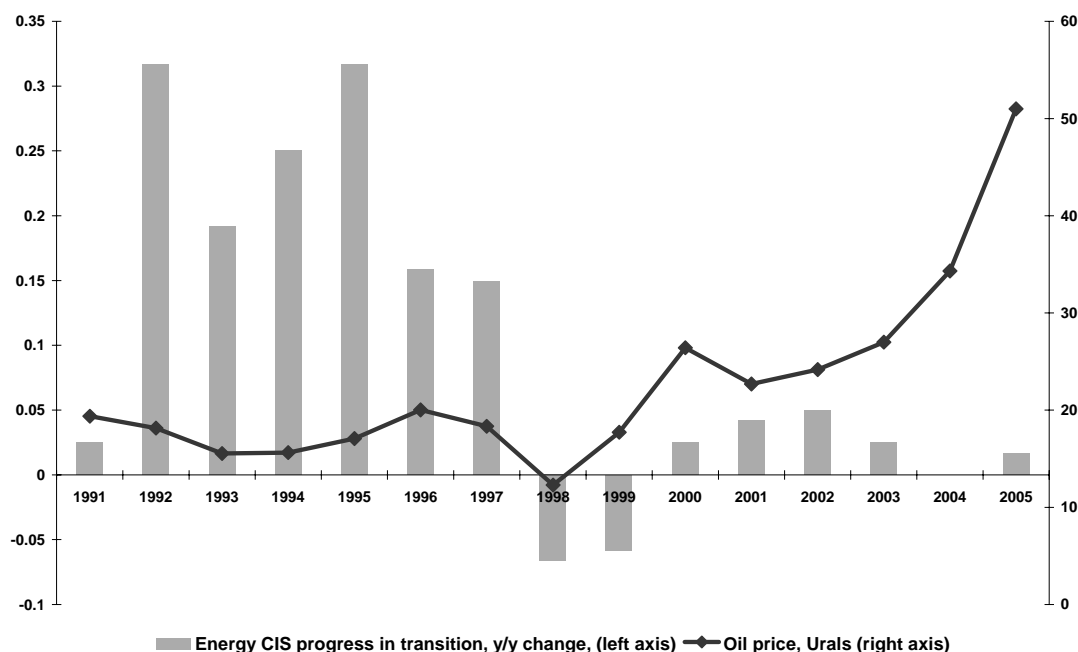
Average EBRD Transition Indicator (including infrastructure)



Source: EBRD

Of course, there is variation among the energy producing countries when it comes to market reforms. Russia and Kazakhstan, for example, fare significantly better than Uzbekistan and Turkmenistan, where market reform has been rejected ideologically. Nevertheless, Russia and Kazakhstan still rank behind non-energy producers like Armenia and Georgia in their overall transition score as of 2005, and they are about on par with Kyrgyzstan and Ukraine which have undergone recent political crises. Azerbaijan places fifth from the bottom among the twelve CIS countries. Even if you take into account that Uzbekistan and Turkmenistan drag down the energy producers' average, the RAKTU countries have an unimpressive reform record to date. And the appetite for reforms has been lowest in years when oil prices have been highest. Most of the reforms in RAKTU occurred from 1992 to 1997, when Urals oil prices ranged somewhere between 5 and 20 dollars per barrel; since 1999, when oil prices began to rise dramatically (rising above 50 dollars per barrel in 2005), reforms have ground to a halt, in some years actually going into reverse in a few countries (see Chart 2).

Chart 2: Reforms and Energy Prices



Source: EBRD

The general connection between resource wealth and reform seems clear enough from the data presented above and has been established theoretically and empirically elsewhere.² The economic good times have unfortunately dampened RAKTU governments' enthusiasm for reform, just when they have the spare revenues and the political comfort that comes along with it to accelerate them. Moreover, on most measures of corruption and democratic governance – free and fair elections, the rule of law, freedom of the press and protection of human and civic rights – the same pattern emerges.

Political and Economic Governance: Democracy, Corruption and Trust

Good public governance – meaning here governing bodies that operate with integrity, transparency and for the good of the whole society – has not always been associated with natural resource wealth. While some countries in the advanced Northern hemisphere – such as Norway, Canada and the United States – have managed to develop their rich natural resource endowments while maintaining or even strengthening robust institutions of public governance, many others in the developing

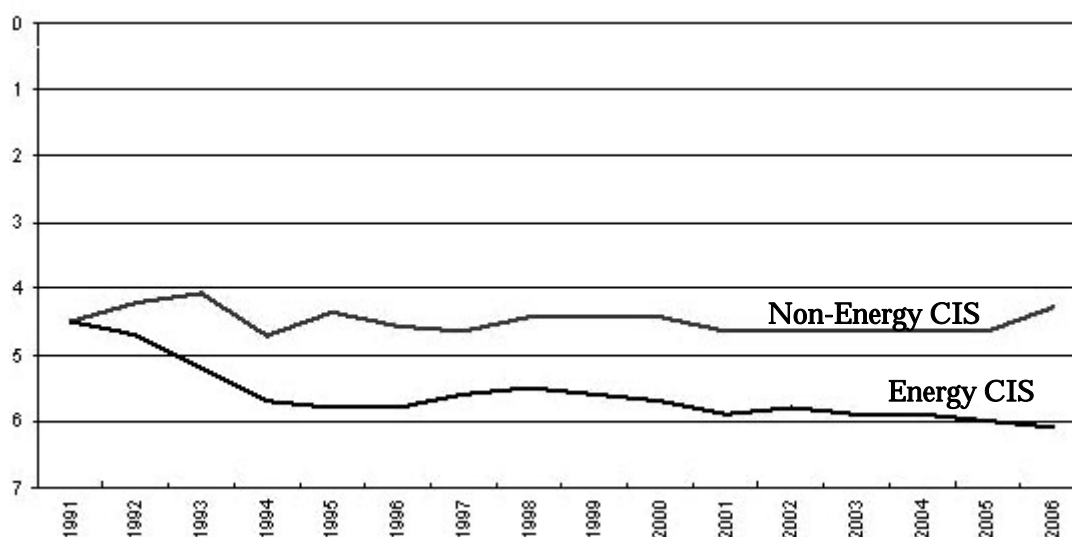
² See Alberto Dalmazzo and Guido de Blasio, "Resources and Incentives to Reform: A Model and Some Evidence on Sub-Saharan African Countries", *IMF Staff Papers*, 50, 2 (2003). For a study of the transition countries, see Akram Esanov, Martin Raiser and Willem Buijer, "Nature's Blessing or Nature's Curse: the Political Economy of Transition in Resource-Based Economies", *EBRD Working Paper* No. 6 (November 2001).

South and post-communist East have had the opposite experience. It is not difficult to understand how this emerged. Oil and gas producing countries generate sizeable rents (excess profits) that have to be captured by someone. If they are captured by large private sector companies, those companies may become difficult to manage politically, especially in the weakly institutionalized new states of Eurasia. Redirecting some of those rents to the state through taxation is harder than it sounds – big energy conglomerates are very good at avoiding (or evading) taxes and compensating the relevant officials privately. If the rents are captured directly by the state itself through state-owned companies, high ranking officials will have incentives to delay the types of reforms that make it easier to track the revenue flows and ensure they maximize social welfare. In other words, they would resist reforms that increase political competition and accountability, enhance transparency and limit corruption, tolerate independent media and civil society.³

The evidence in RAKTU suggests that the Norwegian model has not been guiding their institutional strategy. The commitment to democracy, never very strong to begin with, has weakened since the oil and gas boom began and corruption is on the rise. According to ratings by Freedom House, political rights and civil liberties have gone from bad to worse in the energy producing countries of Eurasia pretty steadily since 1998 (see Chart 3). The political rights indicators measure such things as the electoral process, political pluralism and participation, and the functioning of government; the civil liberties indicators measure such things as freedom of speech, association, religious belief, travel and the right to own property and the rule of law. The average rating on these two indices for RAKTU by 2006 had dipped below 6 on Freedom House's 1-7 scale, where 7 is least free. All the RAKTU countries are rated as Not Free by Freedom House. By contrast, the non-energy producing CIS countries have a higher average rating for political rights and civil liberties and have seen those ratings remain steady or improve since 2001. The "colored revolutions" in places like Ukraine and Georgia have resulted in higher ratings for political freedom, even if they have been accompanied by political uncertainty and controversy.

³ Cause and effect are difficult to establish here. Weak institutions and poor governance may lead to excessive resource dependence and rent appropriation by state actors or resource dependence can lead to weak institutions. See William Thompson, "The Political Implications of Russia's Resource-Based Economy," *Post-Soviet Affairs* 21, 4 (2005): 335-359.

Chart 3: Political Rights and Civil Liberties



Source: Freedom House, various years.

Table 1: Corruption Perceptions Index

Country	Score	Rank (out of 158)
Armenia	2.9	88
Moldova	2.9	88
Belarus	2.6	107
Kazakhstan	2.6	107
Ukraine	2.6	107
Russia	2.4	126
Georgia	2.3	130
Kyrgyz Republic	2.3	130
Azerbaijan	2.2	137
Uzbekistan	2.2	144
Tajikistan	2.1	144
Turkmenistan	1.8	155
Energy CIS	2.24	133.8
Non-energy CIS	2.53	113.4

Scale 0-10, with 10 representing no corruption.

Source: Transparency International.

Similarly, most corruption indices point to an increase in levels of corruption in the past few years and suggest that corruption is a bigger problem in the energy producing CIS countries than in the non-energy producing ones. For example, the average rating for RAKTU in the Transparency International's Corruption Perceptions Index in 2005 was 2.24 on a scale of 0-10 where 0 is most corrupt (see Table 1). The non-energy producing CIS countries had an average score of 2.53, which is better but in itself nothing to crow about.

Surveys by the EBRD and World Bank in 2002 and 2005 confirm this general trend. The Business Environment and Enterprise Performance

Survey (BEEPS), conducted jointly by the EBRD and the World Bank, surveys thousands of businesses in the post-communist transition countries in face-to-face interviews every three years. Enterprise managers are asked about their impressions of the business environment and the obstacles they face in running and growing their businesses, including corruption.⁴ In much of the post-communist transition region, including in the non-energy producing CIS countries, the business environment improved according to firms active in these countries (indicated by an up arrow in Chart 4); however, in the energy producing states the business environment deteriorated (indicated by a down arrow in Chart 4).

Chart 4: Perceptions of the Business Environment

Countries	Judiciary	Crime	Corruption	Customs and trade regulations	Business licensing and permits	Labor regs.	Tax admin.
EU-8		↑	↑	↑	↑	↓	
Energy CIS			↓	↓	↓	↓	
Non-energy CIS		↑	↑	↑	↑		↑

Source: BEEPS 2002 and 2005

In particular, perceptions of corruption as an obstacle to doing business saw a statistically significant decline in Russia, Azerbaijan and Kazakhstan. Other measures of corruption in the BEEPS confirmed the general story. Firms reported paying bribes more often in 2005 than in 2002 in RAKTU and also paying more in kickbacks to officials to secure government contracts. The percentage of annual revenues managers said the amount “firms like theirs” paid in unofficial payments to get things done (the “bribe tax”) in 2005 was lower than in 2002, but this is against the background of rapidly growing economies. If enterprise revenues rose at close to the same rate as GDP, then in absolute terms the volume of

⁴ For a general description of the results of the 2005 BEEPS and comparison with 2002 results, see *EBRD Transition Report 2005* (London: EBRD, 2005), chapter 1. For a more detailed examination of the corruption findings from the BEEPS, see *Anticorruption in Transition 3: Who is Succeeding and Why* (Washington, DC: World Bank, 2006).

bribery may have increased by up to 50 percent from 2002 to 2005 in some countries.⁵

The prevalence of high level and petty corruption and the weakness of key market-supporting institutions of legal enforcement in RAKTU are also undermining social trust. Within-country and cross-country surveys of the post-communist transition region indicate that people in the less advanced countries in the former Soviet Union have lower levels of generalized trust (i.e., the extent to which people feel that others can be trusted) and lower levels of trust in important government institutions like the parliaments, the police and the judiciary. One way of measuring business trust taken from the BEEPS is by looking at the extent to which businesses demand prepayment from or extend trade credit to their customers. Both of these measures are good proxies for trust: suppliers in low trust environments would be more likely to demand prepayment since they couldn't be sure that their customers would pay up after delivery and wouldn't have confidence in the legal system to uphold their contract rights. In 2005, prepaid sales were much more common in the energy producing RAKTU countries than in the non-energy CIS or in the advanced transition economies (EU-8). Similarly, the percentage of annual sales sold on credit was far lower in RAKTU than other countries (see Charts 5 and 6).

⁵ This is a conservative estimate that applies in the case of Russia. It may be larger or smaller in other RAKTU states. See World Bank, *op.cit.* p. 38. For a less conservative estimate of how much firms pay in bribes in Russia, see INDEM, "Corruption Process in Russia: Level, Structure, Trends. Preliminary Report," <www.indem.ru/en/publicat/2005diag_engV.htm> (April 18, 2006). The INDEM report suggests that bribery in Russia grew tenfold from 2001 to 2005.

Chart 5: Trust in the Contracting Environment

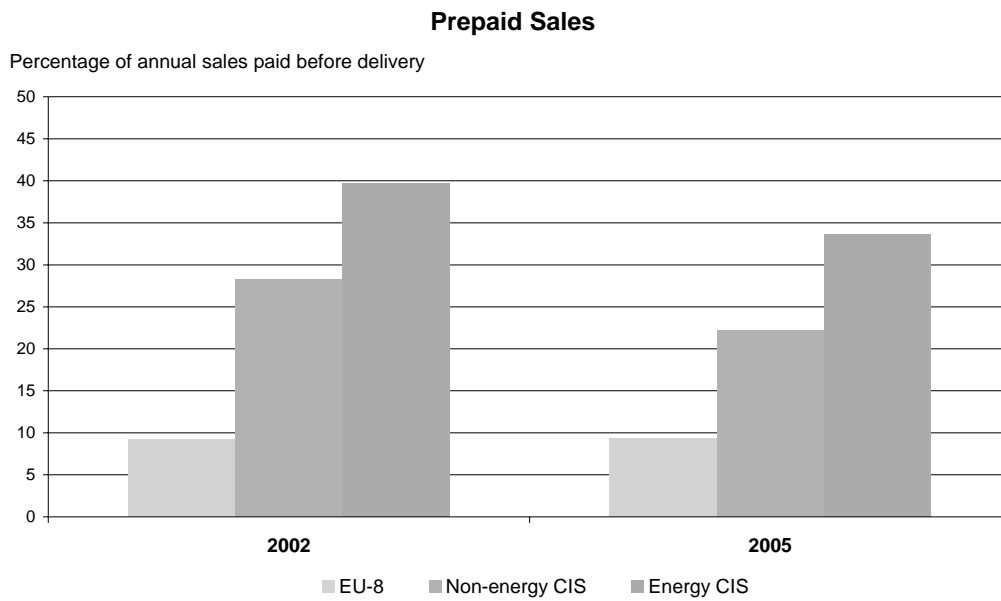
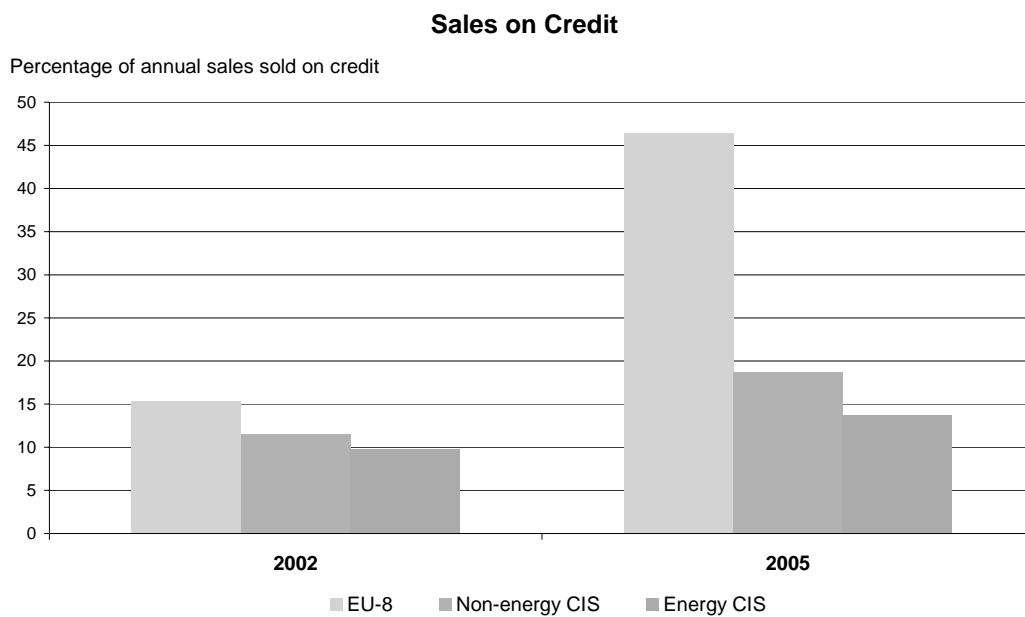


Chart 6

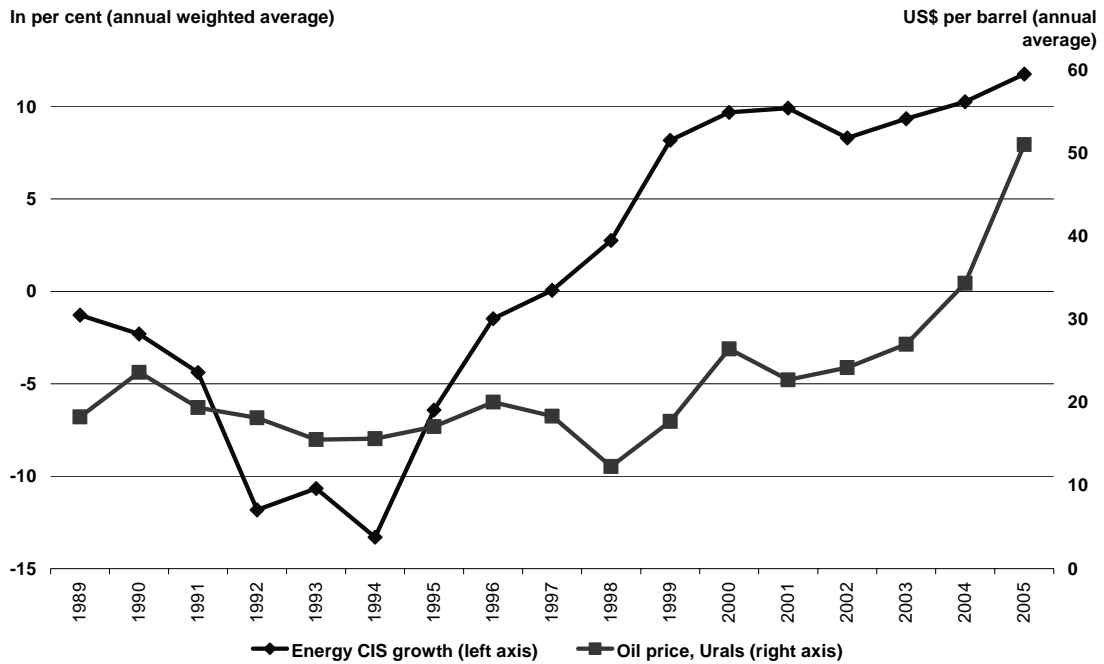


Source: BEEPS 2002 and 2005

Prospects for Economic Diversification

RAKTU governments have recognized the dangers of relying too heavily on their abundant natural resources as a source of growth, which till now is clearly the case (Chart 7). They have taken steps to save for a rainy day, which is wise, and some have at least paid lip service to the importance of economic diversification.

Chart 7: Growth and Oil Prices in Energy-Rich Eurasia



However, the approach to achieving diversification tends to be more administrative than market driven. Countries in the former Soviet Union have been more likely to see diversification as a goal that can be achieved through industrial policy and the channeling of capital to favored economic sectors through directed lending or other incentives, rather than as the byproduct of a better investment climate. While it is clear that natural resource production will continue to dominate the economic output in individual RAKTU countries, the emergence of other manufacturing and service industries would provide a buffer against the commodity boom and bust cycle they are still largely subject to.

As noted above, the investment climate in the energy producing countries in the CIS has shown signs of worsening in line with rising oil prices. Governments in this region have also taken deliberate steps to consolidate state control over the key areas of the economy – the “commanding heights” – which includes the oil and gas sectors and other sectors perceived as strategic. Economic diversification will not proceed naturally in these circumstances, at least not very rapidly. One important transmission belt for economic diversification is a healthy financial sector that intermediates savings into investment. While domestic credit to the private sector is increasing in the energy producing states, it is still quite low by comparison with the advanced transition countries and with developed market economies more generally. At just about 15 percent of GDP in 2005, domestic credit to the private sector in the energy producing states was about one-third the level seen in the advanced transition economies. Similarly, the 2005 BEEPS showed that a small and declining share of firms in RAKTU used external (bank) funds to

finance their investment or working capital needs. The price of money may have something to do with this (interest rates are understandably higher in riskier lending environments), but so does the general lack of trust firms have in banks and vice versa.

One area where RAKTU have particularly lagged behind other more advanced transition economies is in the development of the small and medium sized enterprise (SME) sector. A growing SME sector has the twin advantages of absorbing much of the labor force that is thrown out of work as big, outdated factories modernize and restructure and they help to create a new middle class that can become a core constituency of further market and democratic reform. By some measures, the SME sector has grown in some energy producing countries, but at rates well below their potential. They are held back by onerous regulations and red tape, predatory government officials and corruption. The bribe tax results from the 2005 BEEPS show clearly that small private firms across the post-communist transition region are hit much harder by corruption than are larger, state-owned firms. Small private firms in RAKTU are worse off than comparable firms in other parts of the region.

Outlook: Will Growth Stimulate Reform?

Despite the negative trends on state involvement in the economy and the business environment, years of economic growth have helped to create a burgeoning middle class in countries like Russia, Kazakhstan and to a lesser extent Azerbaijan. Average incomes are rising as is household consumption, two important features of a middle class. People buy more mobile phones, laptop computers, cars and apartments than they did in 2000. They shop in fancier supermarkets and go on more holidays abroad than they did before. Inequality is still a significant social problem, but some of the oil and gas wealth is trickling down to create a nascent middle class. The question is: Will this allow the RAKTU countries to grow their way out of the resource trap and become mature market-based democracies? Prominent theorists in the 1960s suggested that it should, as the growing middle class begins to exert pressure on political elites to liberalize.⁶ However, there are obstacles on the path to democracy that will take some time to clear.

First of all, the beneficiaries of growth in RAKTU countries do not appear to have adopted classic middle class values. Rather than advocate for democracy, openness, market reform and firmer protections of civic and political rights they have become a bulwark for the status quo. This could be due to the rather large (and in some cases, growing) state sector

⁶ See Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966) and Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (Garden City, New York: Doubleday, 1960).

which employs many of the new middle class, giving them a stake in the current system, or, in the case of Russia, it could be because the democratic experiments of the 1990s caused such severe economic dislocations that people have turned away from democratic ideals as a result. Moreover, sophisticated authoritarian leaders in RAKTU have learned how to blunt potential pressures from newly empowered economic elites by limiting their access to the means of collective action. In practice, this means strengthening state control over mass media and placing constraints on civic rights like freedom of assembly and freedom from arbitrary arrest. So long as the state can maintain its control over these so-called “coordination goods” and the economic good times keep rolling, the middle classes may not put the upward pressure on political decision makers to democratize.⁷

⁷ See Bruce Bueno de Mesquita and George W. Downs, "Development and Democracy," *Foreign Affairs* 84, 5 (2005): 77-86.

China and the Shanghai Cooperation Organization: Post-Summit Analysis and Implications for the United States

*Chin-Hao Huang**

Two months ago, the sixth summit of the Shanghai Cooperation Organization (SCO) returned to Shanghai, where the organization was first founded, for its fifth anniversary with much pomp and circumstance. Chinese President Hu Jintao rolled out the red carpet welcoming heads of state from the organization's members.¹ Throughout the two-day summit, they were joined by leaders from neighboring countries sitting in as observers and by senior representatives from Southeast and Central Asian multilateral institutions.² The Chinese hosts did a praiseworthy job of ensuring a seat for each and every regional actor at the working table. All were present but one: the United States.

Looking back, the high-profile summit raised much awareness in the media. The Iranian President Mahmud Ahmadinejad's presence at the SCO, for example, came at a time of much heated controversy surrounding Iran's nuclear standoff. But the issue that stirred most attention was the clear absence of American diplomats at the roundtable discussions, opening up much heated debate on China's intentions in the region.³ China's impressive economic growth, coupled with its military modernization and sharpening diplomacy are increasingly seen as Chinese attempts to eclipse U.S. influence in the region.

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¹ With the addition of Uzbekistan in 2001, the original Shanghai Five – China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan – formally became the Shanghai Cooperation Organization.

² Foreign dignitaries from major states in the region including Afghanistan, India, Iran, Mongolia, and Pakistan, and other regional groups such as the Commonwealth of Independent States (CIS), the Eurasian Economic Community (EURASEC), and the Association of Southeast Asian Nations (ASEAN) were present at the summit.

³ Ariel Cohen, "Bear and Dragon Summit," *The Washington Times*, June 13 2006.

A Mixed Picture

The strategic importance of Central Asia for the United States is surfacing in areas such as counterterrorism, narcotic trade, energy production, public health, human rights and good governance. But following the embarrassing setbacks from the demand for troop pullouts in Uzbekistan and Kyrgyzstan last year,⁴ it appears that the United States has yet to define an integrated and coherent approach to Central Asia. At the same time, China's active engagement in its western front is continuing unabated and has raised much debate in Washington. Some are alarmed by China's regional activism and have called for confrontation and containment. Such concerns are not ungrounded but risks devoting excessive energy on drumming up fears. More in-depth and balanced assessment suggests that there are both strengths and limitations for China's inroad to Central Asia through the SCO. The historic mistrust and continued wariness of China's long term ambitions point to the fact that Central Asian states in the SCO are cautiously optimistic about China's outreach. They remain uncertain on the implications of China's "peaceful development." Due to the unlikelihood of a China-centered order in the region in the short to medium term, it gives hope that a more flexible and attentive diplomatic agenda may allow for the United States to better manage and respond to China's rise in Central Asia.

The SCO and China's Regional Activism in Central Asia

In the last decade, China has taken a more active role in the international system, marking a transformation in its foreign policy.⁵ It has expanded bilateral relationships, joined regional and economic organizations, and intensified its participation in multilateral organizations. China attaches great importance to the SCO partnership with its next-door neighbors in Central Asia.⁶ As a co-founder, China anticipated this organization to be a platform where broad cooperation among all countries and regional organizations can be sought. It originally started with functional issues including the demilitarization of the Sino-Russian borders, tackling drug trafficking, and boosting intra-regional trade.⁷

⁴ Lionel Beehner, "Backgrounder: The Rise of the Shanghai Cooperation Organization," Council on Foreign Relations, June 12 2006, <www.cfr.org/publication/10883> (August 1006).

⁵ Gudrun Wacker, "China's Grand Strategy," *China's Rise: The Return of Geopolitics?* S 3, (February 2006): 58.

⁶ Chinese Ministry of Foreign Affairs, "Foreign Ministry Official Briefs about Shanghai Cooperation Organization Summit," June 12 2006, <<http://www.fmprc.gov.cn/eng/zxxx/t257842.htm>> (August 3 2006).

⁷ Beehner, "Backgrounder: The Rise of the Shanghai Cooperation Organization."

Since its inception five years ago, the SCO has made steady progress in carrying out its mandate for closer regional cooperation on economic development. With China playing host to this year's summit, it placed much greater emphasis on expanding and coordinating economic cooperation. For example, one of the major outcomes of this summit was the decision to implement the Cooperation Program on Multilateral Economic and Trade among SCO member states, a mechanism that would facilitate the free flow of commodities, capital, services, and technology in the region. A couple of months ago on May 26, in a quest to diversify its energy sources, China also struck an unprecedented deal with Kazakhstan, under which oil is to be pumped directly across China's border for the first time via the Alataw Pass in Xinjiang. In 2005, China pledged nearly US\$1 billion worth of loans to the Central Asian states.⁸ In addition, joint investment projects in the transportation and telecommunications sectors have yielded positive results, and the formation of the SCO Business Council is another new initiative launched at this summit to forge an inter-bank agreement in the region to help finance such developmental projects.

Collaboration in the economic agenda has been deepened, a development that is largely encouraged and supported by the Chinese government. Such tactical moves can be interpreted as a Chinese attempt to carve out Russian influence in the SCO and the region and to strengthen Beijing's putative leadership in Central Asia. It would perhaps be difficult to call on Chinese intentions at this early stage but its approach to Central Asia is strikingly familiar to Chinese rapprochement with other regions such as Southeast Asia, Central and South America, and sub-Saharan Africa. China's charm is primarily focused on trade and a diplomatic agenda that looks at win-win collaboration. In an effort to allay regional fears of China's economic, political, and military clout, Chinese leaders use the guidelines of "do good to our neighbors, treat our neighbors as partners" (*yulin weishan, yilin weiban*) and "maintain friendly relations with our neighbors, make them feel secure, and help to make them rich" (*mulin, anlin, fulin*).⁹

As China continues to push the SCO in a direction that will encourage regional trade and economic development, Central Asian countries may also look at the possibility of adopting the Chinese model of market-based authoritarianism, one that is much more successful than Russia's model. As part of its global activism, Beijing's ability to present an alternative political and economic model could be a telling indicator of a growing Chinese ideological influence that is countering the Western

⁸ "SCO provides big opportunities for business," *China People's Daily*, June 14 2006, <http://english.peopledaily.com.cn/200606/14/eng20060614_273872.html> (August 3 2006).

⁹ Bates Gill and Yanzhong Huang, "Sources and Limits of Chinese 'Soft Power,'" *Survival* 48, 2 (Summer 2006): 20.

perspectives of democratic principles as a requisite for economic prosperity.¹⁰

The organization's prominence has also risen quite rapidly with its apparent resolve to confront the "three evils of terrorism, separatism, and extremism" facing the region.¹¹ In 2004, the organization established the Regional Anti-Terrorism Structure (RATS) to coordinate SCO member activities in this endeavor. Based in Tashkent, Uzbekistan, it has conducted several multilateral anti-terrorism military exercises in the region. However, it has not operated without controversy. Member states have asserted their right, under the existing RATS agreement, to clamp down on dissidents along their own borders. As the latest case in point, hundreds of protestors "disappeared" in Andijan last May. The Uzbekistani government claimed that they were terrorists that posed a potential threat to domestic stability and the region at large. Both China and Russia, with their own problems in Xinjiang and Chechnya respectively, quickly applauded such efforts and have reaffirmed the SCO's need to enhance regional security cooperation and the core principle of non-interference in the internal affairs of sovereign states.¹² Anti-terror exercises now occur on a frequent basis and both China and Russia have agreed to host and provide assistance to Central Asian states.

This past summit also saw the group expanding its scope for closer cooperation on other fronts. The SCO also decided to institutionalize cultural and educational exchanges and promote tourism, sports, and the arts within the region.¹³ In addition, to counter drug smuggling out of Afghanistan, the SCO has pledged to monitor and help establish an anti-drug zone around Afghanistan. While Afghanistan may not be a member state of the SCO, this summit saw some promising outlooks on holding more regular consultations on the drug problem and other issues of mutual interest under the SCO-Afghanistan Contact Group framework. If this process is followed through, such regional efforts could reinforce and complement the United Nations Office on Drugs and Crime's mandate to tackle drug supply in Central Asia.

The *raison d'être* of the SCO was initially questioned during its formative years but the growing solidarity among the members of this club has sparked much interest from the rest of the countries in close proximity to Central Asia. Afghanistan, Belarus, India,¹⁴ Iran, Mongolia,

¹⁰ *Ibid.*

¹¹ "SCO anti-terror agency successful: official," *Xinhua News*, June 13 2006, <http://news.xinhuanet.com/english/2006-06/13/content_4691196.htm> (August 3 2006).

¹² "Suppression, China, Oil," *The Economist*, July 7 2005.

¹³ "Cultural exchange boosts 'soft power' for SCO development: expert," *Xinhua News*, June 13 2006, <http://english.scosummit2006.org/en_zxbb/2006-06/13/content_536.htm> (June 13 2006).

¹⁴ During last year's summit, India, along with Iran and Pakistan, was recommended for observer status. The current debate of India's intentions in joining the SCO is mixed. On

and Pakistan have all voiced their eagerness to climb on the bandwagon. There are perks and benefits to becoming a full member, which includes gaining access to untapped energy sources and the latest technology in joint projects, benefiting from infrastructure development, and increasing the flow of investment and trade to a market of over 1.5 billion people. Time is unripe for discussion of these states' inclusion as full members and the process has been stalled. Beijing skillfully argued that there was a lack of legal framework for such an expansion at this stage. Both Beijing and Moscow perhaps realize that the SCO's expansion will translate into a broadening and more competitive playing field in Central Asia.

Implications for the United States

There is little doubt that in the last five years China has been relatively successful in pushing for economic development, reassuring Central Asians about its rise, and finding ways for China and its neighbors to cooperate across a host of mutual interests and activities. Throughout these engagements, some additional benefits accrue: extending Chinese influence and the notion of its benevolence, and countering U.S. influence. Despite what appears to be the marginalization of the United States in the region, there are limits to SCO's strengths and advantages. There is still much suspicion and distrust among the member countries. Most countries still shrewdly maintain links with the United States in order to provide balance to China's rising stature.¹⁵ The United States has effectively persuaded Kyrgyzstan to keep its military bases in Manas. Kazakhstan has also agreed to host North Atlantic Treaty Organization's (NATO) Steppe Eagle military exercises later this September. More surprisingly, some Uzbeks claim that the Andijan uprising last May could be a covert operation sponsored by Moscow to gain more influence over Uzbekistan.¹⁶

the one hand, India has been hesitant about partaking in SCO functions under the capacity of a full member state. Yet, others have argued that India, as a contending rising power in Asia, should take a proactive role in the SCO since Central Asia is part of its "extended strategic neighborhood." Closer economic cooperation – e.g., trade, investments, energy production – could also be part of India's strategic calculations to counter Pakistan's influence in the region. In light of China's rise, the author would submit that India's interest in the multilateral organization is an example of "hedging." Relations between the two countries may have thawed since April 2003 but are still at an early and uncertain stage. Further assessments regarding India's role in the SCO include Maj Jefferson E. Turner, "What is Driving India's and Pakistan's Interest in Joining the Shanghai Cooperation Organization?" *Strategic Insights* 4, 8 (August 2005); Juli A. MacDonald, "South Asia," in *Central Asia and the South Caucasus: Reorientations, Internal Transitions, and Strategic Dynamics*, October 2000; Anita Inder Singh, "India's relations with Russia and Central Asia," *International Affairs* 71, 1 (January 1995): 78; B. Raman, "Shanghai Summit: Indian Misgivings," in *South Asia Analysis Group*, June 2006.

¹⁵ "The Shanghai Six at Five," *The Economist*, June 8 2006.

¹⁶ *Ibid.*

It is important to bear in mind in this early debate that the United States has not completely withdrawn from the region. As part of Secretary of State Condoleezza Rice's push for transformational diplomacy, the State Department created the South and Central Asian Affairs Office in the State Department.¹⁷ Reflective of the growing importance of the region in U.S. foreign policy, it is an attempt to further involve Central Asia with Euro-Atlantic and South Asian institutions focused on developmental aid. Despite the harsh rhetoric against U.S. influence, it appears that most Central Asian states are not completely opposed to an American presence in the region.¹⁸

China's greater tolerance for multilateralism in Central Asia bears important implications. Its emphasis on win-win cooperation and consensus-building initiatives seeks to reassure and reduce worries of Central Asian governments over Chinese intentions. But in turn, Central Asian states are put on an equal playing field with China, and the potential expansion of the SCO to include other states such as Afghanistan, India, and Pakistan will allow additional stakeholders in the region to effectively constrain China. Russia's longstanding ties with the Central Asian regimes will also continue to provide a counterbalance to any Chinese-centered order in the region.

Looking Ahead

It is easy to exaggerate China's influence and misread the SCO's mission as a Central Asian version of NATO.¹⁹ This summit saw Beijing's overall focus on returning the organization to its original purpose: promoting regional development. To be certain, much work remains to be done. The SCO will need to strengthen a range of cooperative mechanisms and dialogue to address some of the most fundamental and critical issues facing the region, including HIV/AIDS, trafficking of weapons, humans, and drugs, and a poor social welfare infrastructure.

More importantly, due to the lack of political reforms and respect for human rights, civil unrest and protests are furthering political instability on a frequent basis. Given the porous borders in the region, political instability in one state could open up a Pandora's box and spread quickly to neighboring countries. This is a growing concern for all countries that have a stake in Central Asia since politically repressive and unstable environments serve as breeding grounds and training camps for potential terrorists.

¹⁷ "The Bureau of South and Central Asian Affairs," U.S. Department of State, February 9 2006, <www.state.gov/r/pa/prs/ps/2006/60885.htm> (August 5 2006).

¹⁸ "The Shanghai Six at Five," *The Economist*.

¹⁹ *Ibid.*

No single member, be it China or Russia, can address these problems unilaterally. Likewise, they should not manipulate the SCO as an alliance for political convenience. Instead, member states should seek greater unity by pulling together available resources to address the political, social, and economic problems in the region. This may include reaching out to Washington. And the United States has good reason to encourage both bilateral and multilateral solutions, combine and strengthen existing efforts within the organization to tackle these pressing challenges. However, it should not overstep its boundaries and remain tactfully mindful of Chinese and Russian concerns about its presence. Any strategic commitment from the United States will require a much greater understanding of Central Asians' perspectives on Chinese and Russian engagements in the region.

Equally important, Washington's longstanding threats of divestment, cutting of aid, and other negative reinforcements are not likely to be effective instruments for motivating Central Asian leaders to change their behavior. It should support democracy but also balance such fervor with a greater understanding of sovereignty in Central Asian states.

The convergence of interests between China, the SCO, and the United States calls for greater collaboration between all sides to confront transnational threats emanating from the region. The absence of the United States from this year's summit was another year of missed opportunities. Next year, however, rather than focusing on rolling out the red carpet, it may perhaps be a wise step for leaders attending the summit to roll up their sleeves and address the mounting challenges facing the SCO and Central Asia.

India's Attitude towards China's Growing Influence in Central Asia

*Gulshan Sachdeva**

The strategic location, energy resources, competition for pipeline routes and the sheer number of regional and global players, were sufficient reasons for many analysts to create theories of the “New Great Game” in Central Asia. The race for military bases and the regime change experiments through “color revolutions” have added a new dimension to this competition. Earlier, analysts felt the real competition was between Russia and the U.S. However as of late, China has created a huge profile for itself through trade, energy deals, military agreements and the Shanghai Cooperation Organization (SCO). The growing Chinese influence in the region is an established fact. Both internationally¹ and in India², many scholars have commented on it and a lot of literature has been written on the subject. Yet, very few in India³ have directly looked at the implications of the growing Chinese influence on Indian security, energy deals and commerce. This article attempts to fill this gap.

Indian policy makers and analysts believe that the region is important because of its strategic location, proximity – Tajikistan is just 20 kilometers from Greater Kashmir - and of its energy resources.⁴ Therefore, restoring traditional linkages with its extended neighborhood in Central Asia and beyond has been one of the primary strategic

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¹ For an excellent review see Niklas Swanstrom, “China and Central Asia: A New Great Game or traditional Vassal Relations”, *Journal of Contemporary China* 14, 45 (2005): 569-584.

² See Sujit Dutta, “China's Emerging ties with Central Asia” in Nirmala Joshi, Ed., *Central Asia: The Great Game Replayed: An Indian Perspective* (New Delhi: New Century Publications, 2003); Nirmala Joshi, “An Appraisal of China's Policy Towards Central Asia” in K Santhanam and Bulat K Sultanov, Eds., *India-Kazakhstan Relations: Enhancing the Partnership* (New Delhi: Anamaya Publishers, 2006).

³ P. Stobdan, “Central Asia & China Relations: Implications for India” in K. Santhanam and Srikanth Kondapalli, Eds., *Asian Security and China 2000-2010* (New Delhi: Shipra Publications, 2004).

⁴ Kapil Kak, “India's Strategic and Security Interests in Central Asia” in V. Nagendra Rao and Mohammad Monir Alam, Eds., *Central Asia: Present Challenges & Future Prospects* (New Delhi: Knowledge World, 2005).

priorities of the government.⁵ Despite the intentions and rhetoric, India was never really part of any competition there. With no direct road or transportation access plus difficult market conditions, the region never became attractive to Indian private companies. In the post-socialist period, economic relations with the region have declined considerably. In the last few years, the annual official trade between India and the whole of Central Asian region is about US\$200 million. Kazakhstan itself accounts for half of this trade. Still, opportunities are enormous as shown by London based Indian steel tycoon Laxmi Mittal who owns a 5.5 million ton capacity steel plant in Kazakhstan. His company employs 50,000 people in Kazakhstan alone from where it supplies the Chinese market. In May 2006, the Indian government also officially approved its participation in the US\$5 billion Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project.⁶ In another development, there are also reports that India has established an airbase in Tajikistan. The Indian Air Force is going to deploy a fleet of MiG-29 fighter-bombers at the Ayni airbase near Dushanbe. The airbase follows the establishment of India's first military "outpost" in Tajikistan at Farkhor, adjoining the Tajik-Afghan border.⁷ The location is important as it is close to the bases of anti-Indian terrorist groups as well as near the territory where Pakistan and China are engaged in military cooperation.⁸

Indian policy makers have been more or less comfortable in dealing with Central Asian authoritarian leaders. They were part of the former Soviet elite, with whom India was dealing with for decades. They have provided stability and are committed to fight religious terrorism. Moreover, many analysts believed that Russia will continue to have a decisive role in Central Asia because of its advantage of history and geography. Although many Indian analysts still believe in the reemergence of Russia⁹, a sober assessment is also made of a scenario in which over time China becomes a dominant player in Central Asia while maintaining very friendly relations with Russia.

As China increases its engagement in the region, India will be watching carefully. Despite many positive developments and fruitful

⁵ See speech by Indian Defense Minister, Mr Pranab Mukherjee at Carnegie Endowment of International Peace, Washington DC, June 27, 2005

<www.indianembassy.org/press_release/2005/June/11.htm> (July 10 2006).

⁶ Union Cabinet decision press release May 18, 2006,

<<http://pib.nic.in/release/release.asp?relid=17859&kwd=>> (July 10 2006).

⁷ "IAF to Station MiG-29s in Tajikistan" *The Times of India*, April 20 2006
<http://timesofindia.indiatimes.com/articleshow/msid-1498063,curpg-1.cms> (August 14 2006).

⁸ Sudha Ramachandran, "India's Foray into Central Asia" *Asia Times*, August 12 2006,
 <www.atimes.com/atimes/South_Asia/HH12Df01.html> (August 17 2006).

⁹ M. K. Bhadrakumar, "The Rise and Rise of Russia" *Asia Times*, July 20 2006,
 <www.atimes.com/atimes/Central_Asia/HG20Ag01.html> (July 21 2006).

diplomatic engagements, India is still very cautious in matters relating to China. Both India and China are still very much concerned with basic balance of power considerations, although officially, both deny this proposition. While delivering a speech at the Shanghai Institute of International Studies, the Indian Foreign Secretary recently declared that the theories of “balance of power” or “conflict of interest” are “outdated in today’s fast-emerging dynamics of Asia’s quest for peace and prosperity and its interconnectedness”. He further asserted that “India and China, as two continental-sized economies and political entities, are too big to contain each other or be contained by any other country”.¹⁰ Still, the Government of India’s 2006 Ministry of Defense Annual Report notes that “China’s military modernization, with sustained double digit growth in its defense budget for over a decade, as also development of infrastructure in the India-China border areas, continues to be monitored”. In addition, “close defense exchanges and nuclear and missile cooperation between China and Pakistan continue to elicit concern”.¹¹ Yet as both countries are concentrating more on domestic economic development, focusing on the positive and playing down the negative, this has been the defining characteristic of India-China relations in recent years.¹² One of the most encouraging recent developments in India-China ties is the rapid increase in bilateral trade. In 2005-06, it surpassed US\$17.4 billion. In the last four years, it has grown at an average rate of more than 55 percent per year. Encouraged by these trends, both have opened a historic trade route at Nathula in Sikkim that had been closed since 1962. This opening has more political significance than trade. Sikkim was incorporated with India in 1975. This move was opposed by China, which lay claim to Sikkim. With this opening, the question of Sikkim being recognized as a part of India is now permanently settled.

Emerging Scenarios

Most analysts now believe that the Asian continent is going to become the new centre of gravity in global politics.¹³ In an evolving Asian

¹⁰ “Present Dimensions of the Indian Foreign Policy” An Address by Indian Foreign Secretary Mr. Shyam Saran at Shanghai Institute of International Studies, Shanghai, January 11 2006, <<http://meaindia.nic.in/speech/2006/01/11ss01.htm>> (July 15 2006).

¹¹ Ministry of Defence, Government of India, *Annual Report 2005-06*, (New Delhi, 2006), p. 10.

¹² B. Raman, “India & China: See No Evil, Hear No Evil, Speak No Evil, Paper No. 1857,” *South Asia Analysis Group*, June 23 2006 < www.saag.org/papers19/paper1857.html> (July 10, 2006).

¹³ Ashley J. Tellis, “Military Modernization in Asia” in Ashley J. Tellis and Michael Wills, Eds., *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty* (Washington : The National Bureau of Asian Research, 2005).

economic and security architecture, most Asian countries would be looking towards China or India for future economic and security alignments. As an economic and military superpower, the U.S. would also like to play an important role in this evolving situation. In Central Asia, India will be expected to play its role as a balancer in the backdrop of increasing Chinese dominance and declining Russian presence. In a rapidly evolving situation, "India would need to bring to bear its rapidly increasing political, economic and military capabilities to the table as a threshold great power with vital stakes in the region".¹⁴ But how alignments will take place in Central Asia is still an open question.

A simple straightforward political logic of realism, with its power balances and security dilemmas would predict the emergence of a Washington-New Delhi-Jakarta-Hanoi-Tokyo axis in the context of a rising China and attempts by the U.S. to contain it.¹⁵ This is a nightmare scenario for Chinese strategists. China would do every thing possible to avoid this situation, including accommodating some Indian security and economic concerns. With a rapidly growing trade and economic relationship with India, China may also try to build partnerships in other areas. Both have declared their intentions of cooperation in oil and gas biddings. India's earlier Petroleum Minister Mani Shankar Aiyer also embraced the idea of Asian regional cooperation in energy and initiated a dialogue between principal Asian suppliers (Saudi Arabia, UAE, Kuwait, Iran, Qatar, Oman) with principal Asian buyers (India, China, Japan, Korea).¹⁶ These efforts showed some results when China National Petroleum Corporation (CNPC) and India's Oil and Natural Gas Corporation (ONGC) mounted a successful US\$573 million joint bid to acquire Petro-Canada's 37 percent stake in the al-Furat oil and gas fields in Syria.¹⁷ Earlier they worked as joint operators in Sudan. India and China may be cooperating in other areas, but when it comes to Central Asian energy, competition is fierce. This was clearly illustrated in late 2005 when China outbid India to acquire PetroKazakhstan, Kazakhstan's third-largest oil producer with CNPC raising its bid to US\$4.18-billion.¹⁸

It is also plausible to argue that an alternative axis running through Tehran-New Delhi-Kuala Lumpur-Beijing could be formed around Asian solidarity.¹⁹ In the context of Central Asia, some scholars in India have

¹⁴ Kapil Kak, "India's Strategic and Security Interests in Central Asia", p. 208.

¹⁵ Varun Sahni, "From Security in Asia to Asian Security," *International Studies*, 41, 3 (2004): 245-262.

¹⁶ Mani Shankar Aiyer, "What Lies Beneath: Getting to all that Oil and Gas," *The Indian Express*, February 25 2006.

¹⁷ Indrajit Basu "India, China Pin Down \$573m Syria Deal," *Asia Times*, December 25 2005, <www.atimes.com/atimes/China_Business/GL22Cb06.html> (July 8 2006).

¹⁸ "India Loses Kazakh Oil firm to China," *The Tribune*, August 23 2005. <www.tribuneindia.com/2005/20050823/biz.htm#2> (July 5 2006).

¹⁹ Varun Sahni, "From Security in Asia to Asian Security", p. 257.

forcefully argued that attempts by the U.S. to bypass Russia, Iran and China for transit of Caspian oil to international markets (like the Baku-Tbilisi-Ceyhan pipeline) could jeopardize the energy security of India and China. Therefore, they argue that India, China and Iran “need to evolve multiple strategies for security and economic cooperation in Central Asia, including trilateral framework involving the three”.²⁰

India-Russia-China cooperation in Central Asia is another pet theme of many anti-American enthusiasts both in India and Russia. Ever since visiting Russian Prime Minister Yevgeni Primakov suggested a Russia-China-India triangle in 1998, the idea has been discussed at various official as well as non official forums. Recently, Chinese President Hu Jintao put forward some proposals for trilateral political coordination on major international and regional issues as well as to uphold multilateralism.²¹

The recent U.S. move to group countries of Central and South Asia under a new bureau in the State Department has added new dimension to India-Central Asia relations. At a very basic level, it is an attempt by the U.S. to shift the Central Asian region away from the Chinese and Russian orbit and bring them closer to South Asian countries. This also fits well with the emerging Indo-U.S. ties. According to U.S. policy circles, the emerging new partnership between Washington and New Delhi will be bound by many common interests, including “preventing Asia from being dominated by any single power that has the capacity to crowd out others and which may use aggressive assertion of national self interest to threaten American presence, American alliances, and American ties with the regional states”.²² So for them, the U.S. policy of developing a new global partnership with India “represents a considered effort at ‘shaping’ the emerging Asian environment to suit American interests in the twenty-first century”.²³

However, the proposition of linking Central and South Asian regions could only be attractive to Central Asians if they have direct access to the rapidly growing Indian market. This can happen only if Afghanistan stabilizes and Pakistan provides direct access of Central Asian goods to India and vice versa. Afghanistan's on-going transformation from a failed into a viable democratic state with a market economy could

²⁰ Ajay Patnaik, “Central Asia's Security: the Asian Dimension” in R. R. Sharma, Ed., *India and Emerging Asia* (New Delhi: Sage Publications, 2005), p. 228.

²¹ “China, India, Russia hold First Trilateral Summit” *People's Daily*, July 18 2006, <http://english.people.com.cn/200607/18/eng20060718_284028.html> (July 20 2006).

²² Ashley J Tellis, “The U.S.-India “Global Partnership”: How Significant for American Interests?” Testimony before the House Committee on International Relations <www.carnegieendowment.org/publications/index.cfm?fa=view&id=17693&prog=zgp&pr oj=znpp,zsa,zusr> (August 10 2006).

²³ *Ibid.*

facilitate this linkage.²⁴ From the commitments of the international community and multilateral institutions, it is clear that a massive effort to rebuild Afghanistan's transport network and economy is underway. Already, the Asian Development Bank is working on many plans to improve institutional as well as infrastructural development in the region.²⁵

Despite the recent Taliban resurgence in the South, Afghanistan will rebound much quickly because of the desire for peace and the entrepreneurial spirit of its population.

Things are, however, very uncertain in India-Pakistan relations. Despite many positive developments (like the composite dialogue), India continues to have serious concerns about terrorist infrastructure in Pakistan targeting India. The recent July 11 bombings in Mumbai, which claimed nearly 200 lives and injured 770 people, have resulted in temporary suspension of peace talks. After the blasts, the Indian Foreign Secretary asserted that "as a result of these terrible terrorist incidents, it is becoming difficult to take this process forward".²⁶ Pakistan has also still not extended MFN status to India and has refused to implement the South Asian Free Trade Area (SAFTA) with India, which became operational on 1 July 2006.

Knowing these difficulties, India's major initiative in the region has been building the North-South trade corridor.²⁷ This is being built in cooperation with Russia and Iran.²⁸ Although this initiative will speed the flow of goods, especially energy, from Central Asia to India via Iran, the shortest route from India to the region is through Pakistan. This is the current major challenge for the U.S. administration, as promotion of regional cooperation between Central and South Asia is now their declared objective²⁹. This is also crucial for the revival of Afghanistan's economy.

²⁴ S Frederick Starr, "A Partnership for Central Asia," *Foreign Affairs*, 84, 4 (July/August, 2005); Gulshan Sachdeva, "Rejuvenating Economic Relations between South Asia & Central Asia" *Shygyz* (Almaty) 2 (2004).

²⁵ ADB, *Central Asia: Increasing Gains from Trade through Regional Cooperation in Trade Policy, Transport, and Custom Transit* (2006); ADB, *Report on the Economic Impact of Central-South Asian Road Corridors* (2005).

²⁶ Special Media Briefing by Foreign Secretary Mr. Shyam Saran on the eve of Prime Minister Dr. Manmohan Singh's Visit to St. Petersburg for G-8 Summit, July 15 2006 <<http://meaindia.nic.in/pbhome.htm>> (August 17 2006).

²⁷ For details about this corridor see International North South Trade Corridor website: <www.instc.org> (August 14 2006).

²⁸ Stephen Blank, "The Indian-Iranian Connection and its Importance for Central Asia," *Eurasianet*, <www.eurasianet.org/departments/business/articles/eav031203.shtml> (June 25 2006).

²⁹ See remarks by Richard A. Boucher, U.S. Assistant Secretary for South and Central Asian Affairs at the conference "Partnership, Trade, and Development in Greater Central Asia" Kabul, Afghanistan, April 1-2 2006,

These developments indicate that India's growing future role and alignments in Central Asia will be determined by the actions of the U.S. and China and their military involvement with Pakistan. If the U.S. is unable to influence Pakistan on dismantling terrorist infrastructure and facilitating transit facilities, and China continues to have close defense, nuclear and missile cooperation with Pakistan, India will have no option but to work closely with Russia and Iran instead to add value to its bilateral relations in Central Asia. There are no indications of China-Pakistan relations weakening in the near future. In fact, when the Indian parliament was debating the India-U.S. nuclear deal, China signed two defense agreements with Pakistan.³⁰

The U.S.-Pakistan equation is uncertain. So far, Pakistan is a declared major non-NATO ally. The U.S. is counting on Pakistani security forces to neutralize the Taliban and Al Qaeda and their associates who are operating from the Afghanistan-Pakistan border. While President Musharraf has co-operated to some extent in the operations to capture some activists of Al Qaeda, he has taken no action against the neo-Taliban. Although the Pakistani administration admits that some of the Al Qaeda leaders may be operating from their territory, they have denied the presence of any Taliban leaders, camps or activities in Pakistan.³¹ Policy makers in Pakistan were hoping that U.S. forces would leave Afghanistan after initial operations so that after their withdrawal, they could have strengthened and use the Taliban card again to attain "strategic depth" in Afghanistan. Now, with the possibility of an enduring U.S. presence, the neo-Taliban are trying to replicate the anti-Soviet Jihad of the 1980's through conventional strikes and terrorist acts. The target is not the Soviets, but the "Western infidels led by the U.S. and the UK" and their Afghan supporters. The objective is to tire and weaken the western forces. They hope that as a result of continuous bleeding, western forces may finally decide to quit. Once that happens, the Karzai government is bound to fall.³²

The Afghan government has repeatedly accusing Pakistan for harboring the insurgents. In these circumstances, it will become increasingly difficult for the U.S. to keep defending President Musharraf, who is making the West pay for his domestic democratic deficit. While some institutions in Pakistan promote the ideology of terrorism, others provide training to carry it out. The possibility of another 9/11 with links

<www.silkroadstudies.org/new/inside/forum/trade_kabul_boucher.html> (June 20 2006).

³⁰ "Pak, China Sign Defence Agreements," *The Nation*, August 17 2006.

<www.nation.com.pk/daily/august-2006/17/index4.php> (August 19 2006).

³¹ S Raman, "South Asia & Al Qaeda---Emerging Trends," *South Asia Analysis Group*, Paper No. 1797 (May 12 2006) <www.saag.org/papers18/paper1797.html> (August 18 2006).

³² S Raman, "Afghanistan: Re-Run of the 1980's," *South Asia Analysis Group Paper*, No.1812, (May 26 2006) <www.saag.org/papers19/paper1812.html> (August 18 2006).

to Pakistan against the West cannot be ruled out. There are reports that officials in the Pentagon are already rethinking the relationship with Pakistan.³³ The June visit of Condoleezza Rice to Afghanistan and Pakistan seems to get the message across that America is “not leaving” and going to stay in Afghanistan for a “very, very long time to come.”³⁴ NATO is also formalizing its presence in Afghanistan to stay on a long term basis. Sensing these developments and in order to stay in power, President Musharaff may opt for cooperation in Afghanistan. For India, the enduring U.S. presence in Afghanistan can be leveraged to push Pakistan into a cooperative direction. To assert its economic and strategic power, India would be able to reach Afghanistan and central Asia over land.³⁵ This could also be a new beginning of India-Pakistan relations. While speaking at the launch of the Amritsar (India)- Nankana Sahib (Pakistan) bus service, the Indian Prime Minister said that “India and Pakistan must work together to open up new opportunities for economic cooperation, not only with South Asia, but also with West Asia and Central Asia. Cities like Lahore and Amritsar should once again become throbbing international commercial centers serving the entire region”.³⁶

On the other hand, China is also trying to improve its presence in Afghanistan through aid and other projects. If Pakistan is able to muster significant influence in Afghanistan, then triangular Pakistan-Afghanistan-China cooperation is also a possibility.

Color Revolutions

After witnessing the Rose revolution in Georgia, the Orange revolution in Ukraine, the Tulip revolution in Kyrgyzstan and the violent protests in Uzbekistan, Central Asian states have clearly moved towards Russia and China. This has happened because of the U.S. dilemma in trying to balance two of its major foreign policy goals - democratization and counterterrorism - in Central Asia. Capitalizing on this U.S. quandary and its overstretch in Iraq and Afghanistan, Russia and China in cooperation with each other have consolidated their position in the region. Most of the western governments and the western press consider these color revolutions as a move towards democracy. Among Indian academic circles, many scholars with mainly leftist leanings have raised a number

³³ “Pakistan Leader Faces Increasing Political Challenges,” *New York Times*, August 18 2006.

³⁴ Secretary Condoleezza Rice, Remarks With Afghan President Hamid Karzai After Their Meeting, June 28 2006 <www.state.gov/secretary/rm/2006/68396.htm> (August 10 2006).

³⁵ C Raja Mohan, “Recent Developments in Afghanistan,” <www.ipcs.org/South_Asia_articles2.jsp?action=showView&kValue=2078&country=1016&status=article&mod=a> (August 15 2006).

³⁶ See <<http://pmindia.nic.in/speech/content.asp?id=302>> (August 16 2006).

of questions regarding the legitimacy and funding of these “revolutions”. They have categorized these “revolutions” as “made-in-America coups” while emphasizing the role of American embassies and western funded NGOs.³⁷ At a higher level, these series of events have also been examined from the broader perspectives of security and stability in the region. It is argued that the evolution of these countries, which are situated at a sensitive geo-political location, to stable democratic systems and thriving market economies will remain extremely difficult and complicated.³⁸ Others, however, argue that these events have shown that the Soviet-era leadership is not going to survive long in Central Asia. So rather than reacting to events, India should have a clear-cut futuristic policy which supports all domestic and outside actors pushing for democracy and market reforms in the region.³⁹ The Indian government has been a more or less passive observer to these events. India was neither alarmed (like Russia and China), nor really excited (like many western governments) by these developments. The response to these developments is articulated by the Indian Defense Minister in his speech at Washington where he asserted that “by nature, India is not inclined to export ideologies, even ideologies it believes in and follows. India would rather promote democracy in the region by precept and example. Freer traffic between India and Central Asia would be a factor in favour of moderation and democracy there”.⁴⁰ In April 2006, Indian Prime Minister visited Tashkent and seven agreements including three agreements in energy and mineral sectors were signed between India and Uzbekistan.⁴¹ The visit demonstrated that India is also willing to deal with authoritarian regimes in the region, if they are able to help India in the energy sector.

³⁷ The left leaning newspapers in India like *The Hindu* carried specific articles on colour revolutions by Russian scholars. Some Indian scholars and journalists mentioned these events in broader foreign policy issues. For example, on writing President Bush's visit to India John Cherian wrote “The recent ‘colour revolutions’ that overthrew governments in the former socialist bloc were funded by U.S. agencies,” www.hinduonnet.com/fline/fl2304/stories/20060310004000400.htm (August 12 2006).

³⁸ M K Bhadrakumar, “Anatomy of a Revolution,” *The Hindu*, May 29 2005; M K Bhadrakumar, “A Storm Sweeps the Post-Soviet Space,” *Asia Times*, October 5 2005, www.atimes.com/atimes/Central_Asia/GJ05Ag01.html (April 15 2006).

³⁹ Gulshan Sachdeva, “Do not Ignore Central Asia,” *The Times of India*, June 15 2004, <http://timesofindia.indiatimes.com/articleshow/1142258.cms> (July 1 2006).

⁴⁰ Speech by Indian Defence Minister, Washington DC, June 27 2005.

⁴¹ Ramakant Dwivedi, An Appraisal of the Indian Prime Minister's Visit to Uzbekistan www.idsa.in/publications/stratcomments/RamakantDwivedi280406.htm (July 15 2006).

The SCO and India

Since the formation of the Shanghai Cooperation Organization (SCO), India is not quite sure what priority this organization deserves. It provides China, Russia and the Central Asian states a delicate equilibrium in the new geopolitical situation. India was never featured in this equilibrium, though Central Asians perceived India's potential to be a countervailing factor.⁴² The major objectives of the SCO have been projected as promoting trans-border peace, security and counter-terrorism. With the increasing profile of the organization, China's role is also becoming large within Central Asia. In the beginning, India showed interest in the SCO but the impression is that China never really wanted India in the grouping. India was welcomed as an observer in the SCO only when China was also admitted in SAARC as an observer. In addition, China also brought Pakistan into the grouping. The way the SCO has conducted itself in the last two years has further aggravated India's dilemma.⁴³

India has a positive perception of the potential of the SCO as an instrument for promoting regional economic integration, trade and ensuring energy security. However, it has many reservations over the political direction of the SCO. Even with the main objective of fighting terrorism, it would be an uncomfortable position for India if the Dalai Lama and his followers, members of the Falungong and people asking for genuine democratic rights in Central Asian republics were clubbed together as terrorists/separatists/extremists. India will find it difficult to digest these interpretations when it is also an important contributor to the UN Democracy Fund, whose purpose is to support democratization throughout the world.

Furthermore, the objective of multi-polarity, as often raised by China, is constantly being used to counter the U.S. influence in Asia-Pacific. At a time when its relations with the U.S. are steadily moving forward, India would be cautious in its participation in the grouping. As a result of these dilemmas, India was the only country among members and observers, which was not represented at the latest SCO Summit by the Head of State but by Petroleum Minister Murli Deora. The official position was that there was no need for the prime minister to attend the meeting as India was only an observer.⁴⁴ The actual fact may be that India is giving serious thought to its involvement in the SCO.

⁴² P Stobdan, "Central Asia & China Relations: Implications for India", p. 355.

⁴³ For an excellent summary of India's dilemmas with the SCO see B. Raman, *Shanghai Summit: Indian Misgivings* <www.saag.org/papers19/paper1847.html> (July 5, 2006).

⁴⁴ Sudha Ramachandran, "India Gives Shanghai the Cold Shoulder," *Asia Times Online*, June 17 2005, <www.atimes.com/atimes/South_Asia/HF17Df01.html> (June 25 2006).

The way the organization is developing, some Indian analysts have already warned that it would “be imprudent for India to join the SCO”⁴⁵. In my view, along with other partners, India should work for a separate regional organization. This new organization should include all countries which have legitimate interest in the region cooperating on a la carte basis. These include the five Central Asian countries, Afghanistan, China, India, Iran, Japan, Russia, Pakistan, Turkey and the United States. The idea is somewhat similar to Frederick Starr’s “Greater Central Asia Partnership for Cooperation and Development” concept.⁴⁶ Although the region has a history of over-engagement with regional organizations, so far none of the organizations is able to accommodate all major players. Moreover, many of them are only on paper. Although SCO is already considered by some analysts as the *de facto* regional organization, there are many uncertainties. These include possible Russian uneasiness over increasing Chinese dominance and complications arising with future enlargements etc.

In the absence of any other dynamic organization, India will continue to participate in the SCO to improve its standing in the region. In the long run, it will also further strengthen Russian position in the SCO. Despite very weak bilateral trade, which is about US\$ 2 billion a year, India-Russia ties continue to be strong. Currently, about 75 percent of its weapons imports come from Russia.⁴⁷ Although many Indian scholars have discussed the possibility of India-Russia cooperation in Central Asia in the past,⁴⁸ concrete examples are emerging now. These include military cooperation in Tajikistan, the North-South corridor, joint exploration of oil and gas in Central Asia⁴⁹ and Russian help with India’s entry into the SCO. Therefore, “as an increasingly powerful China asserts itself in Eurasia and America scrambles to deal with the consequences, Delhi and Moscow still hold many cards.”⁵⁰

⁴⁵ P. Stobdan, “Central Asia & China Relations: Implications for India”, p.357.

⁴⁶ S. Frederick Starr, *A Greater Central Asia Partnership for Afghanistan and Its Neighbors*, (Washington DC: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005).

⁴⁷ Gulshan Sachdeva, “Strengthening Indo-Russian Economic Relations,” *Russia in Global Affairs*, August 2 2004 <<http://eng.globalaffairs.ru/engsmi/0/563.html>> (August 10, 2006).

⁴⁸ Anuradha M. Chenoy, “A Defining Moment” *Frontline*, October 14-27 2000 <www.hinduonnet.com/fline/fl1721/17210150.htm> (July 14 2006); Nirmala Joshi, “Indian and Russian Security Perspectives on Central Asia” in Shamsudin, Ed., *India and Russia Towards Strategic Partnership* (New Delhi: Lancer Books, 2001).

⁴⁹ “India, Russia to Explore Oil and Gas in Central Asia,,” <www.rediff.com/news/2005/dec/05pmrus2.htm> (August 15 2006).

⁵⁰ C. Raja Mohan, “Why Delhi Must Rediscover Moscow,” *The Indian Express*, December 3 2005 <http://iecolumnists.expressindia.com/full_column.php?content_id=83161> (August 20 2006).

Conclusions

Chinese expansion in Central Asia is watched very carefully in India. It is becoming clear that China is going to provide tough competition to India in both energy and trade. If Chinese expansion coincides with declining Russian influence, India will have no choice but to expand its political, economic and military capabilities in Central Asia. Simple realist logic would suggest close Indo-U.S. cooperation in Central Asia. These realities are fueling India's "forward" Central Asia policy. There is also a feeling of urgency in policy circles to discover a strategy where India is able to reach the region over land. The new U.S. thinking of linking South and Central Asia with possibilities of a wider new grouping could fit into Indian thinking. Improvements in India-Pakistan relations, however, would be a crucial input into this strategy. Sensing this alignment, China may try to accommodate some of India's security and economic concerns. If the U.S. is unable to influence Pakistan on dismantling terrorist infrastructure, India will continue to work with Moscow and Tehran to consolidate some control in Central Asia. Although policy makers in India do not believe in the policy of exporting democracy, they would be very sympathetic to political changes as they know that Indian interests would be served better by opening the region to further democratic changes and more economic reforms.

HIV/AIDS in Xinjiang: A Growing Regional Challenge

*Bates Gill & Song Gang**

Introduction

Jutting into Central Asia and bordering on Pakistan, Afghanistan, Tajikistan, Kyrgyzstan, Kazakhstan, Russia, Mongolia, and on the disputed Jammu and Kashmir and Aksai Chin regions, Xinjiang presents Beijing with an array of opportunities and challenges. The region is rich in tapped and untapped natural resources and makes up nearly a sixth of China's landmass. It provides Beijing with a significant strategic foothold in the heart of the Eurasian landmass and a claim to exert its national interests in this increasingly important part of the world.

Xinjiang – its official name is Xinjiang Uyghur Autonomous Region, with “Xinjiang” translating as “New Frontier” – is also home to some of China's most difficult political and social ills. The challenges posed to Beijing by the Uyghur separatist movement and localized unrest – including occasional acts of violence and terrorism – are well known.

But Xinjiang is also an area of growing transnational concern. Chinese authorities suspect that some Uyghur and other ethnic separatists train abroad, such as in Afghanistan or Pakistan, in order to return to China or to carry out violent activities elsewhere. About 60 percent of Xinjiang's population is composed of ethnic groups – largely Uyghur, but also with significant populations of Kazakh and Hui minorities as well – which have familial, linguistic, cultural, historic, and religious bonds across China's western border to Central Asia. The autonomous region also serves as a convenient drug trafficking route, lying between opium growing regions of Afghanistan and the Southeast Asia and heroin markets in Central Asia, Russia, and Europe. Not surprisingly, intravenous drug use has become a major problem in Xinjiang, especially among ethnic populations in Xinjiang's cities, such as Urumqi, Yining and Kashi.

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Many of these domestic and transnational challenges converge on the growing problem of HIV/AIDS in Xinjiang. Neither Beijing nor the international community has focused sufficient attention on the HIV problem in Xinjiang, and how it relates to broader transnational concerns of drug trafficking, the spread of infectious disease, and political discontent. To dig deeper into these issues, this article examines HIV/AIDS in Xinjiang and considers the transnational security threats it may pose to China and its neighbors in Central Asia.

HIV/AIDS Situation in China and Xinjiang

Since China's first detected case of HIV in 1985, the official estimate of HIV cases in the country reached 650,000 at the end of 2005, yielding a national infection rate of 0.05 percent.¹ About three-quarters of these people live in five Chinese provinces: Yunnan, Henan, Xinjiang, Guangxi and Guangdong.² Additionally, among certain high-risk groups and in certain hard-hit areas, HIV prevalence is often extremely high – as high as 89 percent among intravenous drug users in certain parts of Xinjiang, for example. Today, people living with HIV/AIDS are present in all 31 provinces and municipalities of China.

Although the new estimate of 650,000 cases is lower than the previous figures, the epidemic is spreading more rapidly, with an estimated 70,000 new cases of HIV infection and 25,000 AIDS deaths per year as of 2005.³ However, these figures are only estimates: about half a million or more persons in China, or about 80 percent of those HIV-positive, do not know their status and health authorities do not know who they are. Public awareness about the epidemic continues to be fairly low, inviting opportunity for the epidemic to spread rapidly. A survey recently conducted among some 1,000 people in four Chinese municipalities suggests that 72.6 percent of respondents think HIV/AIDS has nothing to do with them, and that they cannot personally take steps to contain the epidemic.⁴

¹ China Ministry of Health, Joint United Nations Program on HIV/AIDS (UNAIDS) and World Health Organization (WHO), *2005 Update on the HIV/AIDS Epidemic and Response in China*, (Beijing: National Center for AIDS/STD Prevention and Control, January 24 2006), 1.; The figure of 840,000 HIV-positive persons in China was reported a year earlier in China State Council Working Committee on AIDS and United Nations Theme Group on HIV/AIDS in China, *A Joint Assessment Report of HIV/AIDS Prevention, Treatment and Care in China* (Beijing: Ministry of Health, 2004).

² "China Has 135,630 Reported Cases of Reported HIV Infection," *Xinhua*, November 28 2005, <http://news.xinhuanet.com/english/2005-11/28/content_3847884.htm> (November 28 2005).

³ *Ibid.*

⁴ National Population and Family Planning Commission of China, A Survey Report, July 28 2006, <www.chinapop.gov.cn/rkxx/rkxw/t20060728_145024815.html> (August 20 2006).

Furthermore, there is widespread agreement that HIV transmission is moving from within so-called “high risk groups” into the general population, mostly through unprotected sexual relations. In 2003, the United Nations Joint Program on HIV/AIDS (UNAIDS) projected that the number of people living with HIV/AIDS in China will exceed 10 million by 2010 if the country does not mount a prompt and aggressive response.⁵

Xinjiang, and especially its Uyghur and other ethnic populations, are disproportionately affected by the HIV epidemic which is spreading throughout China. The first HIV positive case in Xinjiang was discovered in 1995 – though it is likely the disease was present there many years prior to this time. The number of HIV cases in Xinjiang has risen considerably. The number of confirmed HIV/AIDS cases in Xinjiang reached 16,035 as of June 30, 2006. But according to official estimates, there are some 60,000 HIV-positive persons living in Xinjiang, making it the fourth most-affected province in terms of total cases. On a per-capita basis, Xinjiang is easily the heaviest-hit province by a large margin: Xinjiang accounts for a little more than one percent of China’s population, but about 10 percent of its estimated HIV population.

Historically, intravenous drug users (IDUs) made up the largest proportion of Xinjiang’s HIV-positive population, though other groups such as commercial sex workers (CSWs) and men having sex with men (MSM) are also increasingly affected. Evidence now suggests that the epidemic is spreading to the general population. Since Xinjiang’s first case of mother-to-child transmission (MTCT) in 1996⁶, the prevalence of MTCT in Xinjiang exceeded one percent as of December 2004.⁷ Alarming, in some parts of Xinjiang, such as Kashi, the prevalence of MTCT has risen to 5.3 percent, according to official data.⁸ Crossing the one percent threshold for MTCT prevalence meets the UNAIDS criteria for a “generalized epidemic”, suggesting that HIV/AIDS in Xinjiang is spreading from high-risk groups to more mainstream populations.⁹ Although HIV in Xinjiang is mainly concentrated in Urumqi, Yining

⁵ UNAIDS, *Epidemiological Fact Sheets on HIV/AIDS and Sexually Transmitted Infections, 2004 Update China*, <http://data.unaids.org/Publications/Fact-Sheets01/china_EN.pdf> (August 20 2006); see also “Chinese AIDS Exhibits Attract Attention in Barcelona,” <www.china-embassy.org/eng/zt/zgrq/t36656.htm> (August 20 2006).

⁶ National Center for STD & Leprosy Control, “Prevention of Mother-to-child HIV/AIDS Transmission,” <www.ncstdlc.org/jjzx-detail/hiv/jjzx-hiv-20.htm> (August 20 2006).

⁷ People’s Republic of China Ministry of Health, UNAIDS and WHO, *A Joint Assessment Report of HIV/AIDS Prevention, Treatment and Care in China* (Beijing: Ministry of Health, 2004), 7.

⁸ *Ibid.*, 14.

⁹ People’s Republic of China Ministry of Health, UNAIDS and WHO, *2005 Update on the HIV/AIDS Epidemic and Response in China*, 5.

and Kashi, this data may be more a reflection of where there is adequate surveillance rather than a full accounting of how widespread the epidemic is in Xinjiang.

Intravenous Drug Users

HIV is efficiently spread through the sharing of needles by intravenous drug users (IDUs). Until recently, IDUs made up the vast majority of HIV cases in China, and this was particularly the case in Xinjiang. In the past, over two-thirds of Chinese HIV infections were contracted through intravenous drug use with infected needles. Although the nationwide proportion of new HIV positive cases contracted through intravenous drug use declined to 48.6 percent in 2005, the spread of HIV through intravenous drug use will remain significant and difficult to combat. Official data as of 2005 show that HIV prevalence among IDUs has more than tripled from 1.95 percent in 1998 to 6.48 percent nationwide in 2004.¹⁰ In some areas of Xinjiang, the HIV prevalence rate among IDUs has reached a staggering 89 percent.¹¹

Despite the government's continued "strike-hard campaign" on drug trafficking and abuse, drug use has hit new highs in China. As of 2005, China had 1.16 million registered drug users, an increase of over 100,000 persons from 2004.¹²

As an important drug trafficking hub, Xinjiang has become not only an ideal hot spot for international drug smuggling to central Asia and points further west, but also a booming market for drug abuse. As of late 2004, the number of registered drug users in Xinjiang had reached 25,664, with some 15,400 taking drugs at the time.¹³ Given that the actual population of drug users is reportedly four to seven times the number of registered users, the total population of drug users in Xinjiang is perhaps as high as 180,000.

As is common elsewhere in China, most of these people are young – some two-thirds of drug users in Xinjiang are under the age of 35 – and engage in risky behaviors which spread the disease, such as sharing injection equipment and unprotected sex. According to official reports, as of June 2004, some 69.5 percent of drug users in Xinjiang were IDUs and

¹⁰ *Ibid.*, 4.

¹¹ People's Republic of China Ministry of Health, UNAIDS and WHO, *A Joint Assessment Report of HIV/AIDS Prevention, Treatment and Care in China*, 11.

¹² "National Narcotics Control Commission Releases Report of Drugs Control in 2006 in China," June 21 2006, <www.china.org.cn/chinese/zhuanti/jjdp/1250169.htm> (August 20 2006).

¹³ A report by Xinjiang Daily, June 27 2006, <www.xj.xinhuanet.com/2005-06/27/content_4517977.htm> (June 27 2006).

61.2 percent of these persons reported sharing injection equipment.¹⁴ A surveillance survey among drug users in Xinjiang's four prefectures suggested that only 19.2 percent of drug users used a condom with their spouses or sexual partners in recent sexual contact, and 25.5 percent used a condom occasionally in previous six months.¹⁵ In Urumqi, the capital city of Xinjiang, there were some 8,558 registered drug addicts as of late 2005, accounting for 35 percent of the total number of registered drug users in Xinjiang; 75 percent of these drug users were under 35.¹⁶ For the 10 year period up to 2004, compulsory detoxification incarceration has been ordered 23,000 person-times in the capital city.¹⁷ As of late 2004, among 9,787 HIV positive persons in Xinjiang, some 92.3 percent were infected through sharing injection equipment.¹⁸

Commercial Sex Workers and Sexual Transmission

Commercial sex work is increasing in China. There is a wide range of estimates about the number of sex workers in China today, but most are in the range of three to five million. The increase in sex work also leads to an increase in sexually transmitted disease including HIV through unprotected sex. According to a field survey report in 2003, among 200 CSWs in Urumqi, only 15 percent knew of HIV/AIDS and 20 percent used condoms when having sex with clients.¹⁹ In many parts of China, women support drug habits, including intravenous drug use, through the sale of sex, further increasing the risk of spreading HIV. According to the United Nations and Chinese government, "approximately 127,000 sex workers and their clients are living with HIV/AIDS, accounting for 19.6 percent of the total number of estimated HIV cases."²⁰

¹⁴ Xinjiang Department of Health, *Xinjiang Health Bulletin* 25 (June 28 2004), <[www.xjwst.gov.cn/1\\$005/1\\$005\\$035/1\\$005\\$035\\$004/505.jsp?articleid=2004-8-24-0001](http://www.xjwst.gov.cn/1$005/1$005$035/1$005$035$004/505.jsp?articleid=2004-8-24-0001)> (August 20 2006).

¹⁵ Xinjiang Center for Disease Control and Prevention, "Xinjiang xidu renqun dier lun aizibing xiangguan weixian xingwei jiance diaocha fenxi ["Second Surveillance Survey and Analysis of HIV/AIDS Related Risky Behaviours among Xinjiang's Drug Users"], *Difangbing tongbao* [*Endemic Diseases Bulletin*] 20, 5 (2005): 18-22.

¹⁶ See *Xinjiang Daily*, July 26 2006, <www.fzxj.cn/readart.asp?artcleid=7037> (August 18 2006).

¹⁷ See <<http://news.acftu.org/template/10001/file.jsp?cid=64&aid=2519>> (August 18 2006).

¹⁸ Xinjiang Department of Health, *Xinjiang weisheng jianbao* [*Xinjiang Health Bulletin*] 7 (May 12 2005), <[www.xjwst.gov.cn/1\\$005/1\\$005\\$035/1\\$005\\$035\\$001/343.jsp?articleid=2006-1-12-0009](http://www.xjwst.gov.cn/1$005/1$005$035/1$005$035$001/343.jsp?articleid=2006-1-12-0009)> (August 20 2006).

¹⁹ *Zai yule changsuo kaizhan HIV/AIDS xingwei ganyu qingkuang huibao* [*Report of Behavioral Intervention in Entertainment Establishments*], Population and Family Planning Commission of Xinjiang Uygur Autonomous Region, November 3 2003, <www.xjpop.gov.cn/shownews.asp?ID=160> (August 18 2006).

²⁰ People's Republic of China Ministry of Health, UNAIDS and WHO, *2005 Update on the HIV/AIDS Epidemic and Response in China*, 2.

In areas where HIV is more concentrated, HIV prevalence among CSWs is higher. A study in 2003 found that the prevalence among CSWs was as high as 5.08 percent in Chongqing, 6.70 percent in Honghe (Yunnan), and 4.30 percent in Dehong (Yunnan).²¹ Another study in 2002 found that HIV prevalence reached as high as 11 percent among CSWs in parts of Guangxi province.²² Other studies confirm that HIV prevalence among sex workers is over 10 percent in certain hard-hit parts of China.²³ Official data estimates the national average prevalence among sex workers has dramatically increased by nearly 50-fold, from 0.02 percent in 1996 to almost one percent in 2004.²⁴

Xinjiang faces the same challenges as elsewhere in China as sexual transmission of HIV increases. A surveillance study conducted in 2003 among travelers at the entry-exit ports in Xinjiang found that sexual transmission is the second most common mode of HIV/AIDS transmission in the region.²⁵ According to official statistics, the HIV prevalence rate among CSWs reached 4.3 percent in Tulufan and 3.3 percent in Yili in 2004.²⁶

Data on the incidence of other sexually transmitted diseases and infections indicates the extent of risky behaviors, such as unprotected sex, can also result in the transmission of HIV. The presence of certain sexually transmitted diseases and infections can also facilitate the transmission of HIV between sexual partners. A survey in 2004 conducted in Kashi found that the prevalence of syphilis infection was 8 percent among CSWs, 5.75 percent among patients visiting sexually transmitted disease clinics, 4.61 percent among pregnant women and 1.45

²¹ People's Republic of China Ministry of Health, UNAIDS, and WHO, *A Joint Assessment Report of HIV/AIDS Prevention, Treatment and Care in China* (Beijing: Ministry of Health, 2004), 12. See also, *Chongqing Evening Daily*, December 9 2004, <<http://news.sohu.com/20041209/n223412076.shtml>> (August 18 2006).

²² Joan Kaufman, "HIV/AIDS in China: Can Disaster be Averted?," Testimony Before the Congressional-Executive Commission on China, Washington, D.C., September 9 2002.

²³ Pengfei Zhao, "100% CUP Implementation in China" (2005), National Population and Family Planning Commission of China, (Powerpoint Presentation), <www.npfpc.gov.cn/aids/100%25%20CUP%20strategy%20%202005%20%D4%C6%C4%CF.pdf> (inaccessible).

²⁴ People's Republic of China Ministry of Health, UNAIDS and WHO, *2005 Update on the HIV/AIDS Epidemic and Response in China*, 4.

²⁵ Xinjiang Entry-exit Inspection and Quarantine Bureau, et al. "Xinjiang kouan 2001-2003 nian churu jing renyuan HIV ganran jiance jieguo fenxi" ["HIV Surveillance Analysis of Travelers by Xinjiang Entry/Exit Port (2001-03)"], *Xinjiang Port Health Control* 8, 3 (2003): 24-27.

²⁶ People's Republic of China Ministry of Health, UNAIDS, and WHO, *A Joint Assessment Report of HIV/AIDS Prevention, Treatment and Care in China*, 12.

percent among randomly surveyed hospital visitors.²⁷ A more recent study in Xinjiang found that slightly more than 39 percent of 661 CSWs tested were harboring a sexually transmitted disease or infection.²⁸

The “Floating Population”

The growing “floating population” of migrant labor in China poses new and difficult challenges for HIV prevention across China generally and in Xinjiang in particular. According to data released by China’s National Population and Family Planning Commission, the total number of internal migrants increased from about 53.5 million in 1995 to over 140 million in 2004. Some experts predict the number will rise to 300 million by 2020, and eventually to 500 million.²⁹

Beijing has long fostered policies to develop Xinjiang, including through infusing the population of the region with greater numbers of ethnic Han Chinese. The Xinjiang Production and Construction Corps, established in 1954, has for decades organized mass inward migration to Xinjiang to cultivate the vast farms under its jurisdiction. According to the fifth national population census, Xinjiang hosted more than 2.5 million migrants between 1995 and 2000.³⁰ Another report suggested that Xinjiang has hosted some five to six million migrants in recent years.³¹ Since 2001 and the beginning of the “Go West” campaign, infrastructure development projects in Xinjiang have also attracted increasing numbers of surplus laborers from Sichuan and other central provinces such as Henan, Shanxi, and Anhui.

Generally speaking, migrants are more vulnerable to acquiring HIV/AIDS than the overall population owing to a greater likelihood they would engage in high-risk behaviors associated with HIV infection and owing to lower educational levels.³² On average, migrants are young,

²⁷ Xinjiang Center for Disease Control and Prevention, “Xinjiang Kashi diqu 2004 nian aizibing zonghe diaocha fenxi” [“2004 HIV/AIDS Comprehensive Survey in Kashi”], *Chinese Journal of AIDS and Sexually Transmitted Disease* 11, 5 (2005): 353-356.

²⁸ Li Fan, Zhang Feng et al., “Study of HIV-risk Factors among Commercial Sex Workers in Four Cities of Xinjiang,” *Chinese Journal of AIDS and Sexually Transmitted Disease* 12, 1 (2006): 27-29.

²⁹ Jim Yardley, “In a tidal wave, China’s masses pour from farm to city,” *New York Times*, September 12 2004.

³⁰ National Population and Family Planning Commission, *Xinjiang Wailai Liudong Renkou Jihua Shengyu Gongzuo Qingkuang* [Situational Analysis of Family Planning Among Migrants in Xinjiang], April 22 2005, <www.chinapop.gov.cn/ldrkg/fyyl/t20050422_21673.htm> (August 18 2006).

³¹ “Renmin guancha: feidian xijin, Xinjiang yuanhe yipian jingtu” [“People’s Watch: SARS Spreading toward West China, not in Xinjiang”], *People’s Daily*, May 22 2003, <<http://past.people.com.cn/GB/news/7203/7204/20030522/997840.html>> (August 18 2006).

³² See, for example, Li Xiaoming, et al., “HIV/STD Risk Behaviors and Perceptions among Rural-to-Urban Migrants in China,” *AIDS Education and Prevention* 16, 6 (2004): 538-556; N. He, et al., “Sexual behavior and sexually transmitted diseases among male

in the sexually most active period of life, and far from home, families and local mores.³³ With lower levels of education, they are typically uninformed about HIV/AIDS and how to protect against its transmission. Working as migrants, they are more difficult to access with prevention and education messages, further frustrating attempts to slow the spread of HIV through this demographic group. A report at the end of 2005 found that in Chongqing, about 45 percent of HIV-positive persons in that city were economic migrants.³⁴ Another survey conducted in Shanxi Province from 1995 to 1999 suggested that 66.7 percent of those identified as HIV positive were economic migrants.³⁵

In parts of China, migrant women dominate the commercial sex trade.³⁶ Migrant women laborers who take part in the sex trade – working as hostesses, for example, at tea houses, karaoke bars, massage parlors, and other entertainment establishments or brothels – often lack the knowledge and ability to negotiate safe sex with clients. Moreover, studies also indicate that migrant workers have a higher likelihood of becoming drug users, including IDUs.³⁷

Xinjiang experiences what might be called the “reverse migration” effect: the net flow of labor *into* Xinjiang from other parts of China, many of which return to their homes on a seasonal basis. For example, more than 600,000 seasonal migrants flock into Xinjiang for cotton-picking, living in Xinjiang for several months before returning home.³⁸ Frequent large scale internal migration undermines timely and sufficient interventions targeting the “floating population” both in Xinjiang and the source provinces.

rural migrants in a metropolitan area of Eastern China,” abstract presented at the XV International AIDS Conference, Bangkok, Thailand, July 2004.

³³ See the results of a study by the State Population and Family Planning Commission, <www.china.org.cn/chinese/renkou/748584.htm> (August 18 2006).

³⁴ “45.1% of the population infected with AIDS are migrants,” *Chongqing Times*, December 26 2005, <<http://news.sina.com.cn/c/2005-12-26/08037817124s.shtml>> (August 20 2006).

³⁵ Qiao Xiaochun, et al., “Survey on Moving Status among HIV Positives in Shanxi Province,” (2000), <www.hkcss.org.hk/useful_materials/AIDS/Workshop_IIC_3_Qiao_abstract.doc> (inaccessible).

³⁶ Yang Xiushi, “Temporary Migration and the Spread of STDs/HIV in China: Is There A Link?” *International Migration Review* 38, 1 (2004).

³⁷ T. Zu, et al., “Beijingshi Aizibing chuanbo hexin renqun ji xidu renqun xingweixue tezheng yanjiu” [“Behavioral Characteristics of the Main AIDS Risk-taking Group – Drug Use Population in Beijing”), *Essay Collection of the First China Conference on HIV/AIDS and STDs Prevention and Control*, (2001), 156-58; J. Yang, J. Yao and E. Chen, “Zhejiangsheng xidu renqun xingweixue tezheng ji HIV ganran xiankuang diaocha” [“Behavioral Characteristics and HIV Infection among Drug Use Population in Zhejiang Province”), *Essay Collection of the First China Conference on HIV/AIDS and STDs Prevention and Control*, (2001), 75-77.

³⁸ See *Nongmin Ribao* [Farmers Daily], June 5 2006, <www.agri.gov.cn/jjps/t20060605_623185.htm> (June 5 2006).

China's Response to HIV/AIDS

A lack of sufficient resources, suppression of what was considered “bad news”, and widespread stigma slowed an earlier and more effective Chinese government response to China's HIV/AIDS challenges.³⁹ It was not until the summer of 2001 that the Chinese Minister of Health acknowledged that China's HIV-positive population was possibly as high as 600,000 persons.

Since 2003, the Chinese government response to HIV/AIDS has expanded significantly. New leaders were placed in charge of the Ministry of Health, and national and provincial budgets for HIV/AIDS were enlarged. Headed by Vice Premier Wu Yi, a high-level interagency body – the State Council Working Group on HIV/AIDS – was formed in 2003, and was upgraded to State Council AIDS Working Committee in February 2004 to enhance national coordination and resource mobilization.

The national budget for combating HIV was increased from RMB 100 million (approximately US\$12.5 million) in 2002 to RMB800 million (approximately US\$100 million) in 2005. It was officially announced at the end of 2005 that this number would nearly double for 2006 and 2007, increasing to RMB1.5 billion (approximately US\$185 million).⁴⁰ The central government took a highly visible interest in HIV/AIDS and mobilized the bureaucracy to mount a more effective response. A national program to provide comprehensive drug treatment and care, known as “China CARES” (China Comprehensive AIDS Response), was initiated and expanded to 127 sites, and high-profile official appeals such as “Four Frees and One Care” were promoted.⁴¹

Awareness and health education programs have increased, as has HIV voluntary counseling and testing. Surveillance sites have been expanded, and plans are afoot to introduce more aggressive and often controversial interventions to stem the spread of HIV among certain marginalized populations such as IDUs and CSWs, including condom promotion and distribution, needle and syringe exchange programs, and methadone replacement therapy to help IDUs kick heroin addiction.

³⁹ Portions of this section are drawn from Bates Gill, *Assessing HIV/AIDS Initiatives in China: Persistent Challenges and Promising Ways Forward* (Washington, D.C.: Center for Strategic and International Studies, June 2006).

⁴⁰ “Spending on HIV/AIDS Prevention Set to Double,” *China Daily*, December 28 2005.

⁴¹ “Four frees and one care” refers to free anti-retroviral treatment for farmers and indigent AIDS patients, free HIV testing, free prevention of mother-to-child transmission of HIV, free schooling for AIDS orphans, and care for families affected by HIV/AIDS.

Since 2003, the Chinese government has also become more open to receiving HIV-related funding and technical assistance from international governmental and nongovernmental organizations. According to Chinese Vice Minister of Health Wang Longde in late 2005, international cooperation programs to combat HIV/AIDS have been carried out in 27 of China's 31 provinces, autonomous regions and major municipalities, contributing RMB1.867 billion (approximately US\$229 million) in funding.⁴²

These steps are welcome and are demonstrating progress in China's fight against HIV/AIDS. Unfortunately, however, until recently, Xinjiang – while one of the worst hit parts of China – has not received the level of attention and resources commensurate with the HIV challenge it faces. There are a number of reasons for this.

First, both the Chinese government and the international community have been generally slower to mount an effective response to the IDU-spread epidemic. It is true across the world that intervening in IDU populations is more sensitive and difficult. Drug use is illegal in China, so IDUs are naturally averse to engaging with government authorities, and tend to be hard-to-reach populations. Public security authorities tend to be less sympathetic to IDUs and prefer incarceration and forced detoxification over public health-oriented education interventions or methadone replacement therapy as a way of preventing the further spread of HIV. In many parts of the world, IDUs can be reached through the deployment of peer groups and other nongovernmental organizations (NGOs), but this approach presents political and legal obstacles in China. All of these problems apply in Xinjiang where the IDU-driven epidemic is the biggest challenge.

Second, because the HIV epidemic disproportionately affects the Uyghur and other ethnic populations in Xinjiang, combating HIV in the region presents particular political, social, cultural, religious and linguistic challenges.⁴³ The political and social tension between the dominant Han nationality and other ethnic groups in Xinjiang is longstanding, which can undermine a better response to the HIV epidemic in the region. Perhaps more difficult is surmounting cultural, religious and linguistic challenges – for example, developing strategies to work with local mosques and Islamic community leaders, or identifying and deploying sufficient numbers of well-trained public health officials proficient in local languages such as Uyghur or Kazakh.

⁴² "New Rules to Combat AIDS Spread," *China Daily*, October 28 2005.

⁴³ A survey conducted in Xinjiang suggested that up to 85 percent of those contracting HIV in 2003 were of the Uyghur ethnic group. See Xinjiang Center for Disease Control and Prevention, "Xinjiang HIV/AIDS Epidemic Analysis," *Epidemic Bulletin* 20, 1 (2005): 31-32.

Third, as a remote and poorer region, Xinjiang faces a host of practical and logistical difficulties which slow and weaken the effective delivery of HIV prevention, education, treatment and care services.

However, in spite of these difficulties, there are a number of important anti-HIV initiatives in Xinjiang. The World Bank Health 9 Project with US\$140 million in funding, focusing on maternal health, child development, and the prevention of HIV/AIDS and other sexually transmitted diseases, was launched in 1999 in four Chinese provinces, including Xinjiang. The project's HIV prevention work included institutionalizing safer blood collection and distribution systems, improved HIV surveillance and monitoring capacity, and the introduction of certain harm reduction interventions such as condom promotion and behavioral education efforts.⁴⁴ The United Nations Family Planning Agency, in partnership with National Population and Family Planning Commission, provided reproductive health services and HIV/AIDS-related interventions among CSWs in entertainment establishments in Xinjiang.⁴⁵

For its fourth round of funding in July 2005, the Global Fund for AIDS, Tuberculosis and Malaria approved five years of financial support for HIV/AIDS prevention and control in seven Chinese provinces, including Xinjiang, with US\$98 million in funding of which US\$35 million is co-financed by Chinese government. This is the only Global Fund program in Xinjiang. The program seeks to reduce the spread of HIV/AIDS among at-risk groups such as IDUs and CSWs by supporting such activities as methadone maintenance therapy, education and treatment for sexually transmitted infections, needle and syringe exchanges, behavioral education, condom promotion, voluntary counseling and testing for HIV, treatment of opportunistic infections which arise with HIV and AIDS, and the provision of anti-retroviral drug treatment for HIV and AIDS patients. The Global Fund also seeks to encourage greater involvement of non-governmental organizations in the fight against HIV/AIDS.⁴⁶

The Xinjiang HIV/AIDS Prevention and Care Project (XJHAPAC), a partnership between the Australian international development agency (AusAID) and the Chinese government, was launched in March 2002 for five years with Aus\$22 million in funding. The project focuses on three parts of Xinjiang heavily affected by HIV: Urumqi, Yili, and Kashi. The project supports such activities as distribution of educational pamphlets

⁴⁴ A program introduction from World Bank dated February 20, 1998, <www.worldbank.org.cn/Chinese/content/595d1218547.shtml> (August 18 2006).

⁴⁵ Program summary report by National Population and Family Planning Commission of China, May 30, 2005, <www.npfpc.gov.cn/xm5/xm5-rkb.htm> (August 17 2006).

⁴⁶ See China program description for the Global Fund To Fight AIDS, TB and Malaria, <<http://211.167.248.4/globalfund/aids4.asp>> (August 18 2006).

and posters at mosques and other sites, start up of needle and syringe exchange programs in hard-hit neighborhoods, and training of peer educators for both fixed and mobile needle and syringe exchange sites. This project has placed great emphasis on strengthening peer group and community-based interventions, including needle and syringe exchanges, condom promotion among CSWs, and mosque-based interventions against discrimination and stigmatization.⁴⁷ As of October 2004, XJHAPAC believed that 500 to 600 IDUs have been reached by the program, with 20,943 needles distributed, over 24,000 collected, and 1,130 condoms distributed. As a result of this work, needle sharing had been reduced dramatically such that only 12 percent of drug users in the target areas continued to share needles and that condom use among IDUs has increased.⁴⁸

The United States Centers for Disease Control and Prevention Global AIDS Program in China started in September 2003 with US\$15 million in funding for five years, providing support in ten provinces and regions, including Xinjiang. The program seeks to foster greater national and local government commitment for HIV/AIDS, strengthen public health capacity in terms of HIV/AIDS prevention and care, as well as assist with the containment of localized HIV/AIDS epidemics by preventing secondary transmission to the general population. Program activities are designed to improve the provincial-level HIV surveillance system and expand access to HIV testing and care for at-risk populations.⁴⁹

Most recently, the Clinton Foundation initiated a three-year HIV/AIDS treatment and care program in Xinjiang in July 2006 with US\$900,000 in funding. By providing financial and technical support, the program seeks to improve the delivery of HIV-related health services through training of health workers and by establishing a well-organized treatment and care referral mechanism in support of the “Four Frees and One Care” mandated by the Chinese government.⁵⁰

All of these initiatives are important and much-needed. But these programs alone are quite simply insufficient to fully stem the spread of HIV/AIDS in Xinjiang. Clearly, a greater focus of energy and resources will be needed to assist those who are now HIV-positive and slow the pace of HIV transmission in the future. Failure to do so risks an even greater negative impact on economic and social structures in certain parts

⁴⁷ See the description of the China Australia Xinjiang HIV/AIDS Prevention and Care Project, <www.muprivate.edu.au/fileadmin/project_template/index.html> (August 17 2006).

⁴⁸ Authors interview with XJHAPAC workers, Yili prefecture, Xinjiang, October 2004.

⁴⁹ See <www.chinaaids.cn/worknet/zhongmei/shownews.asp?newsid=142> (inaccessible).

⁵⁰ News update from the website of Government of Xinjiang Uygur Autonomous Region, <[www.xinjiang.gov.cn/1\\$001/1\\$001\\$012/197.jsp?articleid=2006-7-20-0016](http://www.xinjiang.gov.cn/1$001/1$001$012/197.jsp?articleid=2006-7-20-0016)> (August 18 2006).

of Xinjiang, and increases the probability that Xinjiang's HIV problem will become a broader problem for China and for China's neighbors in Central Asia.

Implications and Recommendations

A Deadly Mix for Xinjiang and Beyond

The problem of HIV/AIDS in Xinjiang is a focal point around which a number of other challenges converge. Drug trafficking is one good example. The disease is spread primarily through shared needles among IDUs. Drug use is on the rise in Xinjiang, Xinjiang has become an important drug trafficking route, and HIV prevalence among IDUs in the region is remarkably high. There is some evidence that migrants from Xinjiang are often active in drug trafficking in other Chinese provinces, particularly Yunnan and eastern China. China's official press reported that from 2000 to September 2005, some 6,300 drug traffickers originally from Xinjiang were arrested in 13 provinces, municipalities and regions including Beijing, Shanghai, Yunnan and Guangdong.⁵¹ The close geographic, cultural, and linguistic connections between Xinjiang and its neighbors in Central Asia helps facilitate increased contacts across China's western borders, including such activities as drug trafficking and migration. By identifying the spread of certain HIV recombinant viruses it is clear that HIV has spread along certain well-defined pathways between Southeast China and Central Asia, probably fueled in large measure by shared needles among IDUs.

The increase in commercial sex activity in Xinjiang is also related to the spread of HIV in the region and beyond. As Xinjiang develops and becomes an increasingly more open and lucrative place for economic activity, there will also be an increase in the interaction between people engaged in risky activities such as drug trafficking, injecting drug use, and commercial sex. This will include the increase of migrant laborers coming into Xinjiang from other parts of China and of business people and traders from Central Asia. As highway, rail, and air transport routes expand from Xinjiang to Central Asia and from Xinjiang to other Chinese provinces, Xinjiang is likely to become a more and more important gateway between China and Central Asia for all manner of activities, legal and otherwise.

This could become all the more pertinent in light of the ambitious plans of the Shanghai Cooperation Organization (SCO) to generate ever greater economic cooperation and exchange amongst its member and observer states. As of May 2006, the number of people living with

⁵¹ See <http://news.xinhuanet.com/herald/2006-07/18/content_4848006.htm> (August 18 2006).

HIV/AIDS among the SCO member states reached approximately 1.642 million. That number quadruples to just over six million if the four observer states of India, Iran, Pakistan, and Mongolia are included in the tally.⁵²

All the while, Xinjiang will likely remain a politically and socially restive region, especially for its ethnic populations. If and as HIV continues to disproportionately afflict ethnic minorities in Xinjiang, it could become a politically difficult issue for Chinese authorities which already must address a range of cultural, religious, and social tensions in the region. Looking ahead, this convergence of trends may spell trouble for Xinjiang and its neighbors in central Asia.

Important Steps for Going Forward

Given the impact HIV/AIDS already has on China's economy and society, the particular effect it is having in certain hard-hit areas of Xinjiang, and the fact that HIV/AIDS is spilling over from Xinjiang and into neighboring areas, it is imperative to forge more effective national and especially regional responses to the problem.

A major step in the right direction will have to include a more serious effort to reduce stigmatization and discrimination as it relates to people living with HIV/AIDS or at high risk of contracting the disease. This is true no matter where anti-HIV efforts are initiated. But this approach is particularly important among ethnic populations in Xinjiang which already face discrimination and stigmatization regardless of their HIV status.

This approach requires not only greater ethnic sensitivity and a gradual change in social mindsets in China. It will also demand greater creativity in the design of programs aimed at lessening stigma and discrimination and introducing more effective HIV prevention and intervention strategies which make sense within the context of Xinjiang's cultural, ethnic and religious settings.

Second, far more work is needed to foster greater coordination across the relevant government agencies at the Xinjiang regional level. Combating HIV/AIDS is not only a challenge concerning public health authorities, but requires the active and effective cooperation of a range of other government agencies, including public security, justice, propaganda and broadcasting, education and culture, transportation, commerce, finance, and ethnic and religious agencies, among others. Of particular concern is coordination between the public health and public security bureaucracies. Perennial "strike-hard" campaigns to crack down on drug abuse and prostitution should not undermine the broad and effective

⁵² United Nations Joint Programme on HIV/AIDS, *2006 Report on the global AIDS epidemic* (New York: UN, 2006).

implementation of prevention and harm reduction programs, such as condom social marketing, needle exchanges, and methadone maintenance initiatives.

Third, civil society organizations and other nongovernmental groups, including the private business sector, should be encouraged to take a more active part in the fight against HIV/AIDS in Xinjiang. Participation of civil society organization and the private sector have consistently demonstrated success in other parts of the world to mobilize funding and raise public awareness about HIV/AIDS. Peer groups and HIV/AIDS self-help organizations are typically more effective at reaching marginalized and at-risk populations such as IDUs and CSWs. Given the sensitivity of civil society activity throughout much of China, and in Xinjiang in particular, such groups are rare and their activities are often restrained. Some interesting quasi-governmental initiatives have been launched in Xinjiang, but as the HIV/AIDS challenge grows in the region there will be greater and greater demand for energies and insights that well-placed and technically competent civil society organizations and independent peer groups can bring to bear to help stem the spread of the disease.

Finally, there is a glaring need for greater cross-border cooperation between China and its Central Asian neighbors to combat HIV/AIDS and the risky behaviors which facilitate its transmission. The SCO stands out as an organization which can take a greater role in this effort. To date, the SCO has focused its major statements on promoting economic cooperation and combating the “three evils” of terrorism, separatism, and religious extremism. But the spread of HIV/AIDS and associated risk behaviors may pose an even greater problem for China and Central Asia in the years ahead. Considering the long-lasting catastrophic impact of HIV/AIDS as a non-traditional security threat, the SCO secretariat should seek to include anti-HIV/AIDS initiatives as part of its overall work. At a minimum, relevant local authorities in particularly hard-hit areas – such as between Xinjiang and Kazakhstan and between Xinjiang and Kyrgyzstan – should meet to coordinate more effective responses to the challenges which HIV/AIDS pose to their jurisdictions.

Final Thoughts

Like Severe Acute Respiratory Syndrome (SARS) or the H5N1 avian flu virus, HIV/AIDS knows no borders. HIV/AIDS spreads more quietly, however, even as its longer-term effects can be more devastating. HIV/AIDS is also perceived as a problem which only affects certain “bad” people who live in society’s shadows, outside the mainstream. But as the experience in other parts of the world so tragically demonstrates,

HIV/AIDS, left unchecked, will spread into the general population with ruinous effect.

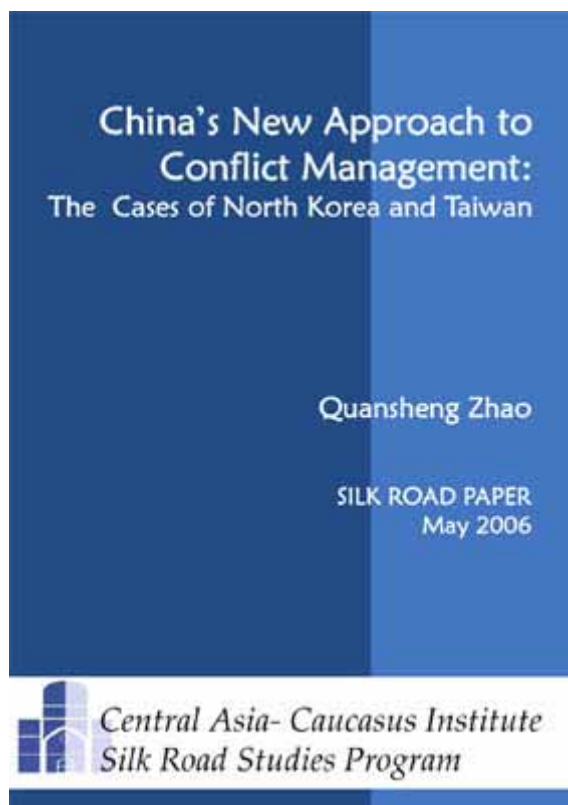
The problem of HIV/AIDS in Xinjiang is particularly challenging, both for how it currently affects marginalized and stigmatized groups, and for the particular political, ethnic, social, religious, and linguistic barriers which stand in front of a more effective and comprehensive response. But for Xinjiang and its neighbors to meet their tremendous developmental potential, the challenges of HIV/AIDS in the region will need to be met head on sooner rather than later.

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After the G-8 Summit: China and the Shanghai Cooperation Organization

*Ariel Cohen**

Beginning of a Beautiful Friendship

Russia and China embraced a new friend at the Shanghai Cooperation Organization (SCO) summit in June – Iranian President Mahmoud Ahmadinejad. The Iranian leader was the only representative from a non-member state (Iran is an SCO observer) invited to deliver a major address, and, true to form, his anti-U.S. rhetoric rang loud and clear. According to Ahmadinejad, the Shanghai Axis should “block threats and unlawful strong-arm interference” – from Washington.

President Vladimir Putin has announced that Iran views the latest incentive package offered by the West, Russia and China positively, and will negotiate. The Iranian nuclear program was not even officially on the agenda. Instead, both Russia and the China went out of their way to stroke their Iranian guest, rather than rebuking his hate-mongering rhetoric or nuclear ambitions.

The embrace of Ahmadinejad in Shanghai implies a degree of legitimacy for the Teheran mullocracy’s anti-Semitic, wipe-Israel-off-the-map stance as far as Moscow and Beijing are concerned. This is hardly a step towards peace in the Middle East. Moreover, the announcement that SCO member state secret services will cooperate may mean further crackdowns on non-violent democratic forces in Eurasia, not only improving needed anti-terrorism cooperation.

At the summit, Iran masterfully wooed the two Eurasian giants. It invited Russia, China, and aspiring SCO members Pakistan and India to cooperate in developing its untapped vast energy resources. Russia went along.

Putin has suggested launching an SCO “energy club”, also known as a “gas OPEC”, which would likely do for natural gas what OPEC has done for oil: cut production and drive up the prices. Russia and Iran have the

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largest reserves of gas on the planet, while Russian-leaning Turkmenistan, and Qatar, right across the Gulf from Iran, are not far behind. If successful, a Russian-Iranian hydrocarbon cartel could cause a major power shift, as Russia is also the world's second-largest oil exporter, while Iran is a founding member of OPEC.

Anti-Americanism may be the glue which binds the Russia-China-Iran trinity together, but the three players have very distinct games. This is high octane geopolitics, where multi-billion dollar projects mesh with high stakes strategy: Roman Abramovich meets Napoleon Bonaparte.

Iran wants to buy security by leading China to believe it will become what Saudi Arabia is for the U.S. while promising the Russians access to future nuclear energy markets (which in reality would be limited: Iran has so much gas, it flares it in large amounts.) In Shanghai, the Iranian game was so transparent, it would have been laughable if it were not so deadly, with Ahmadinejad proclaiming in favor of "cooperation to fight terrorism" – brought to you by the Holocaust-denying sponsors of Hizbollah and Islamic Jihad.

China wants to expand energy and transportation cooperation, which would allow it to sidestep American suspicion of the SCO's strategic intentions, position Beijing as the rational intermediary between Washington and Teheran, and allow it to build economic muscle without premature confrontation with the U.S. President Hu Jintao is playing up China's economic power just like Putin is playing up Russia's energy muscle.

Putin, always the shrewdest geo-politician in the room, also curtsied towards Turkey, Russia's historic enemy. Ankara is expressing an interest in SCO now that European Union accession has been shown to be a mirage. Turkey is a key piece of real estate abutting Europe, the Caucasus, and the Middle East, and in the process of abandoning its traditional pro-American posture under the tutelage of its moderately Islamist government. With Turkey and Iran on board, the gas-rich SCO would span from the Baltic and the Mediterranean to the Pacific, denying the U.S. a military presence and political maneuvering room in the Eurasian heartland. Sir Halford Mackinder and Admiral Alfred Thayer Mahan, the fathers of modern geopolitics, are no doubt watching the new, geo-economic incarnation of the Great Game from heaven, horrified.

But herein lies the rub. China and Russia have conflicting goals – economically and politically, which SCO may not be sufficient to manage in the long run. China's strategic priority is to assure its peaceful economic ascendancy before undertaking any major military adventures. This was the path the U.S. took in the late nineteenth and early twentieth century before becoming a global military power after victory in World War II. For this growth, China needs cheap energy in a peaceful Middle East, something Iran is unlikely to provide. Beijing also

wants the SCO to expand to facilitate China's economic dominance, which Russia cannot match, while Russia is more cautious, understanding full well that expansion will dilute its power and invite rivalries.

Russia, most importantly, is a high cost oil producer, which benefits from high oil prices and conflict around the Gulf. As a Putin adviser recently told me, "Why would we work to calm Iran down? Every ten dollars in the price of a barrel of oil make Russia US\$16 billion richer." And while Russia has retained its ability to wield power after the collapse of the Soviet Union, China hasn't regained it yet -- after hundreds of years of imperial decline.

When the Bear Meets the Dragon

In 1996, five countries – China, Russia, Tajikistan, Kyrgyzstan, and Kazakhstan – formed an organization, the Shanghai Five, to resolve border disputes among its members. With the addition of Uzbekistan in 2001, it became the Shanghai Cooperation Organization (SCO), a grouping of Russia, China and a number of under-developed and developing nations with little to bind them together save geography. Five years later, it has grown not only in size, with the granting of observer status to Mongolia, Pakistan, India and Iran, but also in influence. The group primarily focuses on the security issues of the Chinese trifecta of "terrorism, separatism and extremism." Since its establishment, SCO member states have conducted a number of joint military exercises, and 2003 witnessed the creation of a joint counter-terrorism center in Tashkent, Uzbekistan.¹

The organization calls for greater economic cooperation among its members, and at a meeting on September 23, 2003, Wen Jiabao, the premier of the People's Republic of China (PRC), proposed the long-term establishment of an SCO-wide free trade area² designed to improve the flow of goods in the region by easing trade restrictions, such as tariffs. China has also placed a heavy emphasis on energy projects, including exploration of new hydrocarbon reserves, joint use of hydro power resources, and water works development.

The SCO's security agenda is vast. The organization has been compared to the Warsaw Pact and referred to as the "NATO of the East."³ Its agenda is infused with Chinese and Russian suspicion of U.S.

¹ U.S. Department of State, "Patterns of Global Terrorism – 2003," Office of the Coordinator for Counterterrorism, April 29 2004, <<http://hongkong.usconsulate.gov/uscn/state/2004/042901.htm>> (Aug 1 2006).

² Meng Yan, "Free trade zone proposed," *China Daily*, September 24 2003, <www.chinadaily.com.cn/chinagate/doc/2003-09/24/content_267127.htm> (July 27 2006).

³ Fredrick W. Stakelbeck Jr. "A New Bloc emerges?" *The American Thinker*, August 5 2005, <www.americanthinker.com/articles.php?article_id=4703> (July 26 2006).

designs in Eurasia and a desire to reduce U.S. influences in Central Asia. This is evident in both a 2001 SCO declaration⁴ and a 2005 bilateral Russo-Chinese declaration regarding “World Order in the 21st Century”, in which the two great powers emphasize the principles of “mutual respect of sovereignty, territorial integrity, mutual non-aggression and non-interference.”⁵ Such statements target the United States’ campaigns in Afghanistan and Iraq as well as its democracy-promotion efforts in authoritarian former Soviet Republics, efforts which both Russia and China see as destabilizing. Furthermore, the SCO has urged the U.S.-led coalition to announce a timetable for withdrawing from Afghanistan.

Although China and Russia each have an interest in reducing American military power and influence in Central Asia, each country has its own distinct agenda. Russia hopes to utilize the SCO to buttress its monopolistic power in gas –transit, and to a lesser degree oil transit, in Eurasia. China, on the other hand, would like to structure the SCO as a facilitator of regional trade and investment with Beijing as the dominant player. Despite being substantially larger than North Atlantic Treaty Organization (NATO) or the European Union in terms of total population, land size, and natural resources, the SCO is not strong enough yet to counterbalance the United States in terms of economic strength and military power.⁶ However, the SCO’s statements regarding “sovereignty” and “non-interference” reflected Russia’s and China’s commitment to oust the U.S. from the Karshi-Khanabad air force base in Uzbekistan in 2005 and impose restrictions and high costs on U.S. air force presence in Kyrgyzstan’s Manas International Airport. The United States should remain wary of the growing influence and power of the Russia-China axis.

China’s SCO Goals

Politically, China regards the SCO as a means of creating of a new Eurasian order to reduce U.S. military power and limit democracy promotion abroad. After 9/11, with the consent of both Russia and Central Asian host governments, the United States stationed troops in Central Asia to support the military campaign in Afghanistan. At this point, China began to feel strategically deterred by the U.S. from both

⁴ “Declaration on Establishment of Shanghai Cooperation Organization,” Shanghai Cooperation Organization, June 15 2001, <www.sectsc.org/html/00088.html> (August 1 2006).

⁵ Sergei Blagov, “Shanghai Cooperation Organization summit suggests new Russia-China Links,” *Eurasia Daily Monitor*, July 6 2005, <www.jamestown.org/edm/article.php?article_id=2369975> (July 26 2006).

⁶ William Choong, “China and Russia: New ‘axis’ in the making?,” *The Straits Times*, July 21 2006.

east and west – Central Asia and the Asian Pacific.⁷ China has since re-engaged with the SCO, and with Beijing and Moscow opposing the U.S. campaign in Iraq, and Central Asian states beginning to show concerns regarding the U.S. policy of democratization, its recent efforts to court its neighbors to the west have paid off. Beijing has placed a strong emphasis on exploration and development of natural resources and increased economic cooperation. It has also assisted the Central Asian states in anti-terrorist efforts and bolstered the Russo-Chinese strategic partnership.

A strategic partnership between Russia and China, the two most powerful and influential players in the SCO, may bode ill for U.S. involvement in Central Asia. Indications of the Russo-Chinese partnership systematically reducing U.S. influence are evident in the recent Uzbek demand that the U.S. leave the Karshi-Khanabad base in July 2005. Russia and China took advantage of the harsh U.S. reaction to the Uzbek interior ministry forces' killing of Islamist rebels in Andijan in May of that year, and managed to convince Uzbek president Islam Karimov that the U.S. somehow had supported the insurgents.⁸ Efforts by Moscow and Beijing in Kyrgyzstan have also been successful, as Kyrgyzstan has increased the U.S. rent at the Manas air base from an annual US\$2.7 million to US\$150-200 million, while the Russian base, located nearby is rent-free.⁹ Peter Rodman, assistant secretary of defense for international security affairs, remarked, "The SCO is trying to ask us to leave the area in a hurry."¹⁰ His statements reflect the challenges that the U.S. faces as a result of the emergence of the SCO under Russian and Chinese leadership.

China is eager to expand its military influence in Central Asia, as well. Beijing has contacted Kyrgyz officials, exploring the possibility of Chinese military bases in Kyrgyzstan.¹¹ Increasing regional militarization and intensification of military buildup and power rivalry in Central Asia raises the possibility of utilizing militarily means in addressing regional issues, especially religious radicalism, terrorism and narcotics trafficking.¹² Security issues remain a prime concern for China. Separatist

⁷ Wu-ping Kwo and Shiau-shyang Liou, "Competition and Cooperation between Russia and China in Central Asia and "Shanghai Co-operation Organization: Analytical View from International Regime," *National Chengchi University*, April 18 2005, <http://iir.nccu.edu.tw/hjournal/is_c/is_c_9403.htm> (July 27 2006).

⁸ Personal interviews, Uzbek officials who requested anonymity, Tashkent, October 2005.

⁹ Kin-Ming Liu, "The Most Dangerous Unknown Pact," *The New York Sun*, June 13 2006, <www.nysun.com/article/34366> (July 26 2006).

¹⁰ *Ibid.*

¹¹ Stephen Blank, "China Joins the Great Central Asian Base Race," *EurasiaNet Daily*, November 16 2005,

<www.eurasianet.org/departments/insight/articles/eav111605.shtml> (July 26 2006).

¹² *Ibid.*

movements in Xinjiang, led by the Uighur Muslim minority, have confronted the Chinese regime for decades. After the collapse of the Soviet Union, Beijing successfully garnered an agreement from Central Asian states not to support, protect or train Xinjiang rebels. Since then, China and Central Asian states have signed agreements on combating separatism and terrorism, launching military and security cooperation in the border regions and beyond.

The People's Liberation Army (PLA) has been involved in several joint exercises with troops from other SCO states, including the first-ever bilateral joint exercise with Russian forces in the summer of 2005. China and Russia kicked off Peace Mission 2005 with a ceremony in Vladivostok, just 30 miles from the North Korean border. The war games involved nearly 10,000 troops (including 1,800 Russian military personnel); scores of advanced aircraft (including Russian TU-95 and TU-22 heavy bombers, which can carry cruise missiles); and army, navy, air force, marine, airborne, and logistics units from both countries.¹³

Russia has given the Chinese its first demonstration of the supersonic "carrier-buster" cruise missile Moskit, one of the most advanced weapons in the Russian arsenal, and a weapon clearly designed to get the attention of the U.S. Navy.¹⁴ Although the Sino-Russian maneuvers last August (Peace Mission 2005) were ostensibly held under the aegis of the SCO, the fact that it involved amphibious landings, sea blockades and other operations that are totally irrelevant to the geography of landlocked, desert Central Asia, suggests that the SCO is primarily a vehicle for a new Beijing-Moscow condominium in Asia, and is not intended as a true multilateral security framework for Central Asia.

Fueled by Oil and Gas

Oil and gas constitute the most essential economic and strategic reasons for China to engage with the Central Asian states. China's increasing domestic demand for energy, especially the fossil fuel imports required to sustain its current economic growth rate of more than 9%¹⁵ has compelled Chinese leaders to search for new energy suppliers. Ensuring control of Eurasian oil is a logical path, as some of these oil and gas resources can be piped into China, obviating the need for more expensive and less secure transportation by tanker.

Chinese interest in the SCO mainly hinges on widening access to Central Asian energy as a means to diversify China's sources of imports.

¹³ Ariel Cohen and John J. Tkacik, Jr., "Sino-Russian Military Maneuvers: A Threat to U.S. Interests in Eurasia," *The Heritage Foundation*, September 30 2005, <www.heritage.org/Research/RussiaandEurasia/bg1883.cfm> (July 28 2006).

¹⁴ *Ibid.*

¹⁵ "Wildfire Chinese growth persists," *BBC News*, April 20 2005, <<http://news.bbc.co.uk/2/hi/business/4464229.stm>> (July 30 2006).

In the fall of 2005, China purchased Petrokazakhstan, a Canadian-registered oil company, for close to US\$4.5 billion.¹⁶ In December 2005, China and Kazakhstan jointly opened the 998-kilometer-long Atasu-Alashankou pipeline, projected to deliver up to 200,000 barrels of oil per day by 2007.¹⁷

Taking advantage of the volatile political situation in Uzbekistan, China rushed to provide economic assistance in the form of a US\$600 million loan to start developing a gas pipeline to connect Uzbekistan's considerable gas resources to the Kazakhstan-China gas pipeline which is currently under construction. A gas pipeline spur from Turkmenistan is also under discussion.¹⁸ China is also involved with less energy-rich Central Asian countries, but on a smaller scale. In 2005, China loaned Kyrgyzstan US\$5.7 million and Tajikistan US\$5 million to buy Chinese goods.¹⁹ Chinese officials have even suggested the idea of building a pipeline among member-states. Such a proposal indicates the degree of Beijing's interests in securing access to the region's energy resources. Chinese investment may significantly improve the region's infrastructure and commercial potential. However, as these states increasingly depend on China as source of both investment and security, the likelihood of China intervening in their domestic affairs will grow. Beijing's generous economic assistance begs the question of whether the Chinese are attempting to create a "traditional 'vassal' relationship between China and the Central Asian states through investment, trade and military cooperation."²⁰

The Evolution of Chinese Foreign Policy

Official relations between China and other states have traditionally governed by the principle of "*li*", the "Confucian rules of propriety," formulated in the Zhou Dynasty.²¹ The principle regulated familial and social relations within China.²² Traditional center-periphery relations,

¹⁶ Keith Bradsher, "Chinese Company to Buy Kazakh Oil Interest for \$4 billion," *The New York Times*, August 22 2005.

¹⁷ Stephen Blank, "China Make makes policy shift, aiming to Widen Access to Central Asian Energy," *Eurasianet.org*, March 13 2006, <www.eurasianet.org/departments/business/articles/eav031306_pr.shtml> (July 26 2006).

¹⁸ Stephen Blank, "China Make makes policy shift, aiming to Widen Access to Central Asian Energy."

¹⁹ Niklas Swanstrom, "China and Central Asia: A New Great Game or Traditional Vassal Relations?" *Journal of Contemporary China* 14, 45 (2005): 579.

²⁰ *Ibid.*, pp. 581.

²¹ The period of Zhou Dynasty last from 1022 BC to 256 BC.

²² Pan Yihong, "Traditional Chinese Theories of Foreign Relations and Tang Foreign Policy," *David C. Lam Institute for East-West Studies*, 1998, <www.cic.sfu.ca/nacc/articles/panyihong/panyihong.html> (July 30 2006).

with China in the center, compelled China's neighbors to recognize Chinese superiority by paying tribute to the Chinese emperor.

The Chinese empire attempted peaceful persuasion as a means of bringing non-Chinese into the empire without establishing direct control over their territories. The Chinese worldview was "Sino-centric,"²³ with China as the center of the only known civilization. They had no plans of formal expansion, as was evident in Ming's foreign policy of isolationism in the 15th century. In the expedition by Admiral Zheng He to the Western Ocean, in the Ming dynasty, he did not establish Chinese colonies overseas.

However, the growth of Chinese influence in Xinjiang continued in the 16-17th centuries. Beginning in the early 19th century, China was subject to foreign influence and colonization. After the Opium Wars in 1843, the Chinese territories were divided among Western powers. This affected the Chinese view of securing its territorial integrity. This sentiment provoked a nationalism powered by simultaneous feelings of humiliation and pride. Increasingly, China has stepped up its nationalist rhetoric, especially in regards to using force if necessary in order to solve the Taiwan question.²⁴ The passing of the Anti-Secession Law in 2005 by the National People's Congress provided a legislative basis for China to invade Taiwan.

On several occasions, Chinese leaders have touted China's leading role in the international community. Its *realpolitik* philosophy is that the international system is characterized by a constant struggle for domination, and that China must engage in that battle, its main adversary being the United States. The signing of free trade agreements between Beijing and the Association of Southeast Asian Nations (ASEAN) serves to consolidate Chinese economic influence in Asia. Militarily, China has moved even further afield by dispatching peacekeepers to Haiti. China has departed from its traditional isolationist philosophy and sought to project its influence abroad. China is, at present, a regional power with global aspirations, and if it continues on the path of economic growth and projection of influence, its aspirations may be realized.

China and Central Asia

China's relationships with the peoples of Central Asia have fluctuated throughout history. There have been times of peace, war, trade, isolation, deception, and cooperation. Traditionally, the Chinese empire has been

²³ Robert Ross, *The Great Wall and the Empty Fortress: China's Search for Security* (New York: W.W. Norton & Company, 1997), 23.

²⁴ Wade Boese, "US-Chinese Relations Strained Over Taiwan," *Arms Control Association*, March 2000, <www.armscontrol.org/act/2000_03/chimr00.asp?print> (July 30 2006).

perceived as an aspiring hegemon, if not outright aggressor in Central, Southeast and Northeast Asia, and a significant portion of Central Asia was once an integrated part of the Chinese tributary system.²⁵ As early as 138 B.C., in the Han Dynasty, under the leadership of Zhang Qian, information about hitherto unknown states to the west generated much interest in the court. Increased contact gradually led to the creation of the Silk Road, which facilitated trade between the Chinese empire and Central Asian states. The importance of the Silk Road reached its height during the Tang dynasty, with relative internal stability in China after the divisions of the earlier dynasties. It was during this period the Chinese traveler, Xuan Zhang, crossed the region and obtained Buddhist scriptures from India. In the thirteenth century, under the leadership of Genghis Khan, the builder of the Mongol empire, the whole of Central Asia from China to Persia was united. However, with the decline of the Mongol empire, the revival of Islam and the isolationist policies of the Ming dynasty in the 17th century, China gradually lost interest in the region. Although the Chinese attempted to bring the Kazakhs into a vassal relationship in the 18th century,²⁶ the Chinese empire under the Qing dynasty was subjected to foreign colonialism, and China ended its land expansion. Russians, on the other hand revived its expansionist policies after losing the Crimean War in 1856 by gaining control of the Central Asian Turkestan.²⁷ It was not until the collapse of the Soviet Union in 1989 that China regained its interests in the region.

Since then Beijing has been actively seeking to exert military, political and financial influences in the region. Chinese President Hu Jintao has even touted the region's centrality to Chinese development, a sentiment which likely accounts for the recent joint military exercises, increased political cooperation, and increase in trade between China and Central Asia. China has replaced the United States in providing trade, investment and consumer goods to Central Asia. The Xinhua News Agency boasted that Chinese business supplied US\$500 million in investment to the region in 2003. Railways and roads will provide the necessary transportation links that will connect China's booming East with Central Asia. Some compare recent Chinese involvement there to modern vassal relations, in which China uses Central Asia as a buffer

²⁵ Niklas Swanstrom, "China and Central Asia: a new Great Game or traditional vassal relations?", pp.569.

²⁶ Mark Dickens, "Major Events Relevant to Central Asian History, Part 2 (Since 1600)," <www.oxuscom.com/cahist2.htm> (July 28 2006).

²⁷ Library of Congress, Federal Research Division, "Russia: Foreign Affairs after the Crimean War," <[http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+ru0025](http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+ru0025)> (July 28 2006).

zone and an economically integrated entity which will help to advance the Chinese global agenda.²⁸

Beijing's interests in the SCO can be separated into two different categories: economic and security. At least two institutional players are competing to set foreign policy and security agendas: the PLA and the Foreign Ministry. These two entities have often engaged in a struggle of determining Chinese foreign policies. Unsurprisingly, the military often favors hawkish policies, while diplomats prefer peaceful means. However, in the SCO, both the diplomats and the military have adopted forward strategies for China. Lieutenant General Li Qianyuan, head of the Chinese military delegation in the SCO, stated that the high-level joint military exercise exhibited the SCO states' determination to fight terrorism, separatism and extremism.²⁹ Following the proclaimed success of a Sino-Kyrgyzstan joint anti-terror exercise in 2002, the Defense ministers from SCO states signed, at the summit held in Moscow in May 2002, a treaty on conducting this joint anti-terrorist military exercise.

Fighting separatism is a priority for Beijing. The separatist movements in Xinjiang constantly confront the Chinese regime. After the disintegration of the czarist empire, the Muslim minority in the province saw an opportunity to recreate the Muslim state of East Turkestan. There was a spike in separatism after the disintegration of the Soviet Union as well. Suspecting other Central Asian states might protect separatists, China warned that Chinese investment and trade in the region would be in jeopardy if the Central Asian states refused to comply with Chinese demands. Since the early 1990s, the PLA presence in Xinjiang is around 200,000 soldiers who are tasked with monitoring the Muslim population.³⁰

The Chinese government has claimed that the Taliban and Osama Bin Laden have been harboring Uighur terrorists in Afghanistan.³¹ However, the U.S. invasion of Afghanistan destroyed Uighur revolutionaries' safe haven. In this respect, China and the U.S. share a common goal in combating nationalism and radical, political Islam. Though China has been uncomfortable with American military presence in Central Asia, Beijing has voiced qualified support of U.S. operations in Afghanistan in combating Muslim militants.³² However, the extent of cooperation is limited, as the Chinese fear that the permanent stationing

²⁸ Niklas Swanstrom, "China and Central Asia: a new Great Game or traditional vassal relations?", pp.580.

²⁹ <http://english.peopledaily.com.cn/08/06/2003> (July 27 2006).

³⁰ Niklas Swanstrom, "China and Central Asia: a new Great Game or traditional vassal relations?", pp.572.

³¹ *Ibid.*, pp.572.

³² "Statement by the Foreign Minister," *Chinese Ministry of Foreign Affairs*, December 19 2001.

of American troops in the region will change the power balance. Both Russia and China hope to consolidate their influence in this region by diminishing U.S. regional presence.

The Current and Potential Clash of interest between China and Russia

The SCO cannot simply be regarded as a monolithic entity. States' interests inevitably conflict with each other. Sino-Russian current and future contradictions are the most obvious, but other conflicts abound. For instance, the Kyrgyz are unsatisfied with ceding a mountain range to China in the framework of a peace treaty. Specifically in the Askay riots in 2002, a protest against the Kyrgyz government ceding too much territory to China in land negotiations occurred.³³ Even cases of Chinese diplomats being assassinated as a result of the Kyrgyzstan populace's frustration towards Beijing have been reported. Similarly, the clash of interests between China and Russia is evident in military strategic and energy considerations. Since 2004, high-profile Russian officials have stressed Moscow's opposition to a Chinese military presence in Central Asia.³⁴ Russia opposes a growing strategic role for China.

Conflicts of interest are most pronounced in the energy sector. In 2005, the Russian energy firm Gazprom and KazMunaiGaz, Kazakhstan's main gas pipeline firm, agreed to increase gas transit of Turkmen and Uzbek gas via Kazakhstan to Russia for export to Gazprom's European customers. This move may restrict China's gas importing options in the region.³⁵ Furthermore, while China wanted the main Siberian oil pipeline to end in Daqing, in Heilongjiang province. Russia prefers a more expensive pipeline to Nahkhodka on the Pacific Coast with a spur to Daqing. Such a route will give Russia greater flexibility to export not only to China but also to Japan and Korea. Japan has even expressed willingness to subsidize the construction of the pipeline. Russia has remained cautious about the final decision on the direction and structure of the Siberian pipeline, which demonstrates that Russia does not want to become dependent on a single Chinese customer for its oil, exposing itself to vagaries of monopsony (dependence on one customer).

Russia, joined by U.S. energy companies, has attempted to obstruct Chinese efforts to buy energy holdings in the region, compelling the Chinese to search other oil and gas options, such as cooperation with Iran. Iran's ties with China (and Russia) are strengthening, and it sought to apply for full SCO membership. China currently imports around 13

³³ Matthew Oresman, "Assessing China's Reaction to Kyrgyzstan's 'Tulip Revolution,'" *Central Asia-Caucasus Analyst*, April 6 2005.

³⁴ Stephen Blank, "China Joins the Great central Asian Base Race."

³⁵ Stephen Blank, "China Make makes policy shift, aiming to Widen Access to Central Asian Energy."

percent of its oil from Iran. Pakistan is also interested in SCO membership, in exchange for which President Pervez Musharraf is offering China an “energy corridor” to Central Asia and the Middle East. Chinese interest in exploring a link to the long Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline reflects the Chinese agenda of diversifying its sources of energy. However, Chinese and Russian officials have explicitly ruled out Iran becoming an SCO member, and have ruled out any further expansion of SCO membership in the near future. The Chinese Assistant Foreign Minister Li Huio, stated that the SCO will not take in new members before its six-members “make serious studies.”³⁶

Implications for the United States

The U.S. is concerned that Beijing and Moscow are using their diplomatic alliance to limit America’s role in Central Asia. Both Russia and China would prefer that Central Asian countries’ contacts with the West be managed, or at least approved, by Moscow and Beijing. But the chief beneficiary from the SCO is China.³⁷ Beijing’s standing in the SCO and relatively good relations with the U.S. and Europe gives China the opportunity to serve as an intermediary for the West.

Russia’s reluctance to construct an oil pipeline between Daqing and Siberia indicates Russian concerns about Chinese control over its natural resources. Moscow is also concerned about Chinese military intentions, creating a sense of mistrust between the two powers. Despite Russia’s and China’s joint denunciation of American military presence in Central Asia, Kyrgyzstan has allowed the U.S. to maintain its base at Manas, and Kazakhstan will even host NATO’s Steppe Eagle exercise in September this year. The SCO is not yet a cohesive entity in challenging the U.S. militarily or economically.

NATO may explore expanding relations with the SCO. Options for cooperative efforts may go beyond the existing NATO-Russia Council, and Partnership for Peace, in which most Central Asian states are members. NATO members have a degree of cohesion and unity of values not yet present amongst SCO members and observer states, which often demonstrate considerable differences of approach and interest. Equally important, the SCO is a relatively small organization, still in its infancy, with an operating budget of less than US\$30 million and a staff of a few dozen people. NATO, being larger, stronger, and more experienced in transnational security issues, can engage the SCO in discussions of

³⁶ Dr Maqsoodul Hasan Nuri, “Pakistan and SCO,” *The International News*, March 11 2006, <www.jang.com.pk/thenews/mar2006-daily/11-03-2006/oped/o4.htm> (July 27 2006).

³⁷ Howard W. French, “Shanghai club, Once Obscure, Now Attracts Wide Interests,” *The New York Times*, June 16 2006 (lexis-nexis, July 27 2006).

strategic issues facing the region and develop paths for cooperation along the lines of Partnership for Peace.

The United States should also engage in bilateral agreements with the larger organization. Given that the founding of the SCO primarily serves as a geopolitical counterweight to the United States, American entrance into the organization is unlikely. The 2005 U.S. application to join the SCO was rejected.³⁸ Under such conditions, it is doubtful the United States and China can agree on terms for American membership without conceding their respective interests. However, the U.S. does not necessarily need membership in the organization to work closely with Central Asian states. It should renew its application to join as an observer and use friendly states, such as Kazakhstan and Mongolia, to support a U.S. observer status. Whether or not the U.S. is able to attain observer status, it should use every diplomatic tool in its arsenal to oppose Iran's intention to join as a full member.

Should Iran be permitted to enter the SCO, this will be a clear indication that Russia and China side with Iran on the issue of nuclear proliferation. Furthermore, inclusion of Iran would give the SCO significant influence over one of the world's largest supplies of oil and gas reserves in addition to another nuclear arsenal. Russian President Vladimir Putin's suggestion of forming a "natural gas OPEC" with Iran and Turkmenistan is of particular concern. These three countries are first, third, and fourth, respectively, in natural gas reserves, and will have the capacity to raise the global price of gas by regulating supply.

If the United States hopes to gain observer status in the SCO, it should engage the Central Asian states, specifically, by balancing democracy promotion and democratization with its other national interests, including security and energy. With the exception of Turkmenistan and Uzbekistan, most of the Central Asian states continue to maintain links with the United States to balance Russian and Chinese power. The U.S. should use what remaining contacts and leverage it has and continue to improve relations with friendly Central Asian states by providing economic, governance and legislative reform assistance and enhancing military to military relationships. Working alongside with these state governments in combating jihadists and terrorist organizations, the U.S. can appeal to common goals and secure American strategic and energy interests in the region.

The U.S. should be looking for ways to expand cooperation with those in SCO who are concerned about a Sino-Russian duopoly, which will diminish their sovereignty, such as India, Kazakhstan, and Mongolia. It should also engage Russia and China in a dialogue over Eurasia and energy security. Ignoring the SCO, as the U.S. has done for the last six

³⁸ Fredrick W. Stakelbeck Jr. "A New Bloc emerges?"

years, is both short sighted and foolish: if it continues on this track, one day America may wake up to a world where its economic and strategic power is severely constrained. It is time to face the challenge of the new, quickly evolving strategic reality in Eurasia before it is too late.

Escaping Russia, Looking to China: Turkmenistan Pins Hopes on China's Thirst for Natural Gas

*Kathleen J. Hancock**

ABSTRACT

Nearly 15 years have passed since the collapse of the Soviet Union. In the former superpower's place stand Russia and 14 other new states. Each of the smaller states has had to decide whether it will rejoin Russia in an economically integrated neo-empire, as Russia has been pursuing, or whether it will shrug off the former imperial center. Turkmenistan's dictator-for-life Saparmurat Niyazov has pursued a Russia-resistant policy. Dependent on Russian-owned natural gas pipelines to export its single vast resource, the state has long looked for alternative routes to international markets. In April 2006, Chinese President Hu Jintao agreed to build a pipeline from Turkmenistan to China, giving the Central Asian leader hope of finally escaping the opportunistic Russia. Several factors will determine whether the pipeline becomes a reality, including Niyazov's ability to reign in his troublesome personality, China's willingness to convert from coal-burning to natural gas fueled plants, and Uzbekistan's interest in a pipeline traversing its territory. If China does build the pipeline, Russia will lose its monopoly over Turkmenistan's cheap natural gas, a loss that could significantly affect Russia's strategy in the region.

Keywords • Turkmenistan • Central Asia • China • Russia • Energy • Pipeline • Natural gas

Nearly 15 years have passed since the Soviet Union ceased to exist. During that time, the leaders of the 14 smaller and economically weaker former Soviet states have had multiple opportunities to demonstrate that they desire renewed economic regional cooperation with Russia. In addition to the 1991 Commonwealth of Independent States Agreement, Russia has designed eight regional economic agreements, many of them with hierarchical features that place Russia in the position of leading a neo-empire. Other agreements include the 1993 agreement on forming a customs union, the 1993 ruble zone under which states agreed to retain the Russian ruble, the 1994 Free Trade Area, the more specific and binding customs union agreement of 1995, the Treaty on Union that calls for a type of federation between Russia and Belarus, the broad-based Eurasian

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Economic Community which Russia overtly modeled after the European Community, and the 2004 Common (or Single) Economic Space.

Individual former Soviet states have signed anywhere from zero to all eight agreements, with the Baltic states at one end of the spectrum with zero agreements, Belarus at the opposite end with all eight, and others falling all along the range. In previous work, I divided the states into three groups: Russia Friendly, Russia Resistant, and Mixed.¹ Within these groups, perhaps the oddest bedfellows are the economically and socially liberal states of the Baltic Sea (Estonia, Latvia, and Lithuania) and authoritarian Turkmenistan, all in the Russia Resistant category. This article focuses on Turkmenistan's relationship with Russia and the leader's desire to escape dependence on Russian natural gas pipelines in part by wooing China as a critical future customer.

“The Worst of the Worst”

President Saparmurat Niyazov governs a highly centralized authoritarian system with a strong personality cult. Preferring a grandiose title over the mundane “president,” he has dubbed himself Turkmenbashi, “Leader of all Ethnic Turkmen.”² Rivaling the most egocentric of dictators, Niyazov's visage is omnipresent. As a visitor reported, “The golden likeness of the former communist party boss-turned-dictator is in the center of the capitol, always rotating to face the sun. His picture is on the airplane that brings you to the main port town called Turkmenbashi. It watches over workers in the field, over children in school, over drivers on the road. He's also on the money, and he's even on the national vodka.”³ Niyazov has declared a national holiday to honor his favorite fruit, the melon, a fact revealed in an American radio show designed to demonstrate the dictator's absurd decrees.⁴ The President renamed January “Turkmenbashi” and changed April to his mother's name.⁵ Adding to his reputation for being both authoritarian and bizarre, Niyazov recently made international news when he outlawed lip-synching as damaging to the culture.⁶

¹ Kathleen J. Hancock, “The Semi-Sovereign State: Belarus and the Russian Neo-Empire,” *Foreign Policy Analysis* 6 (2006): 117-136.

² Government of Turkmenistan, Embassy in the United States, Government and Politics, <www.turkmenbashi.org> (March 4 2006).

³ Bob Simon, “Turkmenbashi Everywhere: If You Think Saddam Was Fond of Himself, Visit Turkmenistan,” CBS News, 60 Minutes, January 4 2004, <<http://www.cbsnews.com/stories/2003/12/31/60minutes/main590913.shtml>> (March 5 2006).

⁴ National Public Radio. Wait, Wait, Don't Tell Me, “Not My Job: D.C. Mayor Anthony Williams,” <<http://www.npr.org>> (June 12 2006).

⁵ Simon, “Turkmenbashi Everywhere”.

⁶ “Just Don't Move Those Lips,” *Calgary Sun* (Alberta), August 26 2005.

Niyazov goes beyond being simply eccentric. His state was dubbed by Freedom House as one of the 18 “Worst of the Worst: The World’s Most Repressive Societies.”⁷ In October 1990, Niyazov won the state’s first presidential election, ironically making this dictator the Soviet Union’s first popularly elected president. According to official reports, 97 percent of the population turned out for the vote, with 98 percent voting for Niyazov.⁸ Two years later, after official independence, he was re-elected. In the 1994 parliamentary elections, only Niyazov’s party, the misnamed Democratic Party of Turkmenistan, was allowed to field candidates.⁹ At the same time, a referendum extended his term to 2002. Six years later, the 50-member Assembly unanimously elected him leader for life.¹⁰

Following an alleged assassination attempt, Niyazov continued consolidating power.¹¹ The legislative branch no longer has any authority, formal opposition parties are illegal, and Niyazov appoints the Supreme Court judges.¹² Turkmenistan’s freedom of the press rating has gone from a dismal 91 to 96 (out of 100) in 2005. Radio Liberty broadcasts provide the only alternative to the state-controlled media in the Turkmen language. Turkmen journalists working for Radio Liberty have been attacked in Moscow. A reporter was abducted, beaten, threatened with death, and eventually forced into exile.¹³ The state forbids citizens to subscribe to foreign newspapers or magazines, and limits Internet providers to the state-owned and operated Turkmen Telekom.¹⁴

In 2005, the president announced plans for “far-reaching democratic reforms.” He noted that elections are a “recognized practice all over the world” and are “the essence of democracy.” The elections would be introduced in a tiered fashion, he said, with lower level officials being elected first and culminating in a presidential election in 2009. Despite these overtures to democracy, there is little reason to take Niyazov at his

⁷ Freedom House, “World’s Worst Regimes Revealed,” March 31 2005, <www.freedomhouse.org> (January 2006).

⁸ Current Digest of the Soviet Press, November 28 1990.

⁹ Freedom House, Freedom in the World–Turkmenistan <www.freedomhouse.org> (March 5 2006).

¹⁰ World Facts, “Facts about Turkmenistan,” <<http://worldfacts.us/Turkmenistan.htm>>, (January 30 2006); CIRCA (Cambridge International Reference on Current Affairs), “People in Power: Turkmenistan,” November 16 2000.

¹¹ Emmanuel Decaux, “OSCE Rapporteur’s Report on Turkmenistan,” March 12 2003; Reeker, Philip T., “Aftermath of Assassination Attempt in Turkmenistan,” December 3 2002; Reeker, Philip T., Deputy Spokesman. Press Statement: “Continuing Arrests and Abuses in Turkmenistan,” December 31 2002.

¹² World Facts, “Facts about Turkmenistan.”

¹³ Freedom House, “Freedom of the Press, 2002 through 2005”; “Freedom in the World–Turkmenistan 2005,” <www.freedomhouse.org> (February 6 2006).

¹⁴ Freedom House, “Freedom in the World–Turkmenistan, 2005.”

word. Indeed, he went on to explain that he would need to “groom” his successor, suggesting continued personal involvement.¹⁵

Economy Driven by Natural Gas

While Niyazov’s idiosyncratic personality flavors much of the state’s relations in the region, Turkmenistan’s natural resources, historical relationship to Russia, and the natural gas pipelines that weave these two factors together also play critical constraining roles. When international investors speak of the Central Asian state, they are nearly certainly discussing natural gas production and exports. Turkmenistan has about 2.1 trillion cubic meters in reserves, amounting to 1.2 percent of the world’s reserves, and making it the state with the 13th largest natural gas reserves.¹⁶ With large reserves and a small population—just under 5 million—Turkmenistan’s citizens and enterprises require only a fraction of the state’s natural gas. In 2002, for example, Turkmengas and Turkmenneft, the only relevant players in the state, produced 71 billion cubic meters of gas; of that total, Turkmen citizens and industries used only 15 billion cubic meters, or 21 percent, leaving nearly 80 percent for export.¹⁷

According to the *International Energy Outlook 2005*, natural gas will be the fastest growing component of primary energy consumption worldwide. The U.S. projects natural gas consumption will increase by about 2.3 percent annually until 2025, compared to 1.9 percent and 2.0 percent for coal and oil, respectively.¹⁸ With its proven and unproven reserves and relative proximity to several markets, including the increasingly demanding China and India, Turkmenistan appears to be well positioned to capitalize on this growth market. However, President Niyazov must find export routes that can accommodate the growth. Currently, Turkmenistan depends almost completely on Russian-owned pipelines to move its product to the market, leaving it highly vulnerable to Russian pressure.

The Gazprom-owned pipelines deliver Turkmenistan’s exports to Russia and Ukraine, customers that account for virtually all of the Central Asian state’s exports. Because Gazprom’s own natural gas

¹⁵ “Turkmenistan Announces Democratic Reforms, Presidential Elections in 2009,” *News Central Asia*, February 1 2005, originally published on <www.newscentralasia.com> found on <<http://presidentniyazov.tripod.com/id40.html>> (February 27 2006).

¹⁶ U.S. Energy Information Administration, U.S. Department of Energy, *International Energy Outlook 2005*. <www.eia.doe.gov/oiaf/ieo/index.html> (March 2006). This information comes from Table 8 in the agency’s report.

¹⁷ Sergei Rudnitsky, “Turkmenistan’s E&P Projects Achieve Good Pace,” *World Oil Magazine* 224, 1; Burren Energy, “Operations: Turkmenistan,” <www.burren.co.uk/turkmenistan.htm> (March 2006).

¹⁸ U.S. Energy Information Administration, *International Energy Outlook 2005*.

competes for space in the pipelines, Turkmenistan is at the mercy of the gas giant to deliver its exports. Naturally, if Gazprom's pipeline capacity cannot handle all available exports, Gazprom's product will be favored over that of Turkmenistan. This is precisely what has happened. The capacity problem emerged immediately following the collapse of the Soviet system. As a result, in 1991-92, Russia refused to transfer 9 billion cubic meters of Turkmen gas to Azerbaijan, claiming that it lacked the capacity to carry this additional amount.¹⁹

Russia Pressures Turkmenistan

Russia has opportunistically used Turkmenistan's pipeline vulnerability to gain concessions from Niyazov. In May 1993, Turkmenistan was the only CIS state that refused to sign the Agreement on the Formation of Economic Union, a formal structure that Yeltsin had actively pushed.²⁰ This occurred at a time when Yeltsin was locked in a bitter battle with the Russian Duma, making the success of the CIS critical for demonstrating Russia's ability to act like a great power at least toward the other former Soviet states. That year, Russia exported 11 billion cubic meters of Turkmen gas to Europe, where the customer paid in hard currency. Most CIS states, in contrast, were already defaulting on payments. Despite Europe's ability to pay, Russia failed to reimburse Turkmenistan for two months of exported gas, worth about \$185 million, and then informed Turkmenistan it would transport Turkmen gas only to the former Soviet republics and not to Europe. This was a major blow to Turkmenistan, which was already owed about \$1.5 billion for natural gas exported to Azerbaijan, Armenia, Georgia, Kazakhstan, Ukraine, and Uzbekistan.²¹

As Turkmenistan prepared to host the December 1993 CIS Summit, Niyazov began hinting that his state might join the CIS economic union.²² At the Summit, he agreed to allow Russian troops to guard the state's borders with Iran and Afghanistan, to grant Russians dual

¹⁹ Matthew J. Sagers, "Regional Industrial Structures and Economic Prospects in the Former USSR," *Post-Soviet Geography* 33 (1992): 487-515.

²⁰ Sergei Shargorodsky, "Former Soviet Republics To Form Economic Alliance," *Associated Press*, May 14 1993; Ivan Ivanov, Gennadi Talalayev, and Leonid Timofeyev, "Nine CIS States O'Kay Economic Union," *ITAR-TASS*, May 14 1993.

²¹ International Gas Report, "Turkmen Supplies Cut Back," *Financial Times Business Limited*, FT Energy Newsletters, February 18 1994; "Azerbaijan: Reduced Supplies of Gas From Turkmenistan," *BBC Summary of World Broadcasts*, February 18 1994.

²² "Turkmenistan may become full member of CIS, according to Niyazov," *ITAR-TASS*, December 20 1993; Lyudmila Glazovskaya, *BBC Summary of World Broadcasts*; "Turkmenistan Prepares for CIS Summit and Yeltsin's Visit," *ITAR-TASS*, December 21 1993.

citizenship, and to join the Economic Union.²³ The sequencing and timing suggest that the Turkmen leader may have been promised increased export opportunities if he signed the agreement. Or he may simply have hoped that Yeltsin's administration would be more favorable if he granted it these concessions. Either way, his decision to join these hierarchical structures failed to bring Turkmenistan improved export markets or additional payments. In February 1994, citing lack of payment, Turkmenistan reduced gas deliveries to Azerbaijan, Georgia, and Ukraine.²⁴ Russia followed suit, for the first time cutting its fuel exports to Ukraine. In March, Niyazov concluded two pipeline deals with Iran, perhaps giving the Turkmen president greater confidence in his ability to export gas without surrendering to other Russian-dominated arrangements.²⁵ When Russia presented the CIS Free Trade Area accord in April, Niyazov did not sign. At the same time, following joint negotiations with Russia and Ukraine, Turkmenistan agreed to resume exports in exchange for Ukraine's commitment to pay \$78 million in cash and to send \$200 million worth of goods every 3 months.²⁶

During the next several years, Russia and Turkmenistan frequently fought over gas exports. Turkmenistan had little leverage, however, and Russian leaders continued using their advantage to block Turkmenistan's exports and thus corner the market for Gazprom.²⁷ In spring 2003, Russia apparently used its pipeline leverage to force Turkmenistan to abandon pipeline options that excluded Russia and its firms. Ukraine's President Leonid Kuchma visited Niyazov to discuss the gas exports. Following the meeting, the Turkmen president announced that the three parties, including Russia, needed to draft an agreement that would govern gas supplies and prices for the next 25 years. For the first time, Niyazov began talking about building a second pipeline that would go through Russia and deliver gas to Ukraine. A new one, he argued, would run from western Turkmenistan along the Caspian coast to Russia and then Ukraine.²⁸ As part of the contract, Niyazov agreed to the low and locked-

²³ Sergei Parkhomenko, "Moscow Extends Military Role," *The Independent*, December 24 1993.

²⁴ International Gas Report, 1994; "Azerbaijan: Reduced Supplies of Gas From Turkmenistan," *BBC Summary of World Broadcasts*, February 18 1994; Mekhman Gafarly, "Ukraine May Be Left Without Turkmenian Natural Gas," *Segovdnya, Russian Press Digest*, February 19 1994; "Turkmenistan to Suspend Gas Supplies to Ukraine," *UPI*, February 21 1994.

²⁵ "Iran to Refine Turkmen Oil," *Agence France Presse*, March 17 2004.

²⁶ Lyudmila Glazovskaya, "Turkmenistan To Resume Gas Supplies To Ukraine," *ITAR-TASS*, April 15 1994.

²⁷ "Russia Forces Turkmenistan Out of the CIS Gas Market," *Nezavisimaya Gazeta*, August 7 1997.

²⁸ "Turkmen Leader Praises Gas Cooperation with Ukraine, Russia," *Financial Times Information*, April 14 2003, BBC Monitoring International Reports, <<http://web.lexis-nexis.com/universe>> (January 30 2006).

in price of only \$44 per thousand cubic meters. The parties further agreed that Russia would pay in cash for half of the exports and barter for the rest with Russian-manufactured commodities. This deal allowed Gazprom to continue exporting its gas to high paying European markets while purchasing cheaper gas from Turkmenistan.²⁹

Despite backing down on the price point, Niyazov has remained feisty. After the contract, he accused Moscow of taking without payment \$15-20 billion a year in natural gas, oil, and cotton during the Soviet period. He indirectly accused Russia of complicity in the 2002 alleged assassination attempt against him.³⁰ Again, in December 2004, a Turkmen delegation arrived in Moscow pushing to increase gas prices from the agreed \$44 to \$60 per thousand cubic meters.³¹ Turkmenistan stopped gas exports to Russia after Gazprom refused to pay the higher prices.³² The stoppage forced Ukraine to concede to the \$60 price, a bargain compared to international market prices which were around \$220 to \$250 per thousand cubic meters.³³ In the second half of the year, Turkmenistan agreed to lower the rate back to \$44 provided Ukraine paid in cash.³⁴ As the *Petroleum Economist* noted, "Gazprom is counting on Turkmenistan's gas to fill in a gap in supply until challenging new Russian fields can be tapped"³⁵ Where once Gazprom had too much capacity, it now needs Turkmen gas to maximize its profits. Russia resells Turkmenistan's gas in the Caucasus at about twice what it pays for it, and in Turkey for nearly three times the price.³⁶ This incredible mark-up makes Turkmen gas a critical component of Russia's natural gas strategy in the region. Recognizing this, in January 2006, Niyazov raised Russia's and Ukraine's price to \$60, stating "Should Ukraine and Russia not accept our price, we will wait a year or five."³⁷

Turkmenistan's success as an economically viable state depends on building new pipelines. In 1993, Turkmenistan produced 64.8 billion cubic meters per year. Five years later, its production bottomed out at 13 billion

²⁹ "Russia To Import Turkmen Gas," *RIA Novosti*, April 10 2003.

³⁰ This terrorist act was carried out with the involvement of some big and some small countries, Niyazov had previously accused Uzbekistan; "Big Powers Have 'Strategic Interests' in Turkmenistan – President," *BBC Monitoring International Reports*, October 24 2003.

³¹ "Turkmenistan Gas Export Impasse Takes a New Turn," *News Central Asia*, December 30 2004, <www.newscentralasia.com> (January 30 2006).

³² "Turkmenistan: Naughty and Not Nice," *Petroleum Economist*, March 7 2005.

³³ "Stalemate in Russia-Turkmenistan Gas Price Talks," *News Central Asia*, December 12 2005, <www.newscentralasia.com> (January 30 2006).

³⁴ "Turkmenistan sets new higher price for its gas," *Alexander's Gas and Oil Connections*, December 22 2005, <www.gasandoil.com/goc/news/ntc55107.htm> (May 23 2006).

³⁵ "Turkmenistan: Naughty and Not Nice," *Petroleum Economist*.

³⁶ Guy Dinmore, "US woos Asian energy allies to thwart Russia Gazprom," *Financial Times*, April 29 2006.

³⁷ "Turkmenistan sets new higher price for its gas," *Alexander's Gas and Oil Connections*.

cubic meters. This was largely due to Gazprom squeezing Turkmenistan out of the market. In contrast, Uzbekistan—the other large Central Asian supplier—increased production for years after independence. In 1993, Uzbekistan produced 19.8 billion cubic meters *less* than Turkmenistan. Five years later, with steady annual increases, Uzbekistan had far surpassed Turkmenistan as the largest regional producer after Russia. Turkmenistan has since revitalized its production, at last overtaking Uzbekistan in 2003. Turkmenistan's earlier freefall can be fairly placed on Russia's shoulders. Without significant export routes, Turkmenistan had nowhere to send its gas, making production futile.³⁸

Escaping Russian Opportunism

Given Russia's opportunistic behavior with the pipelines, the Turkmen leader must consider other options. Thus far, he has pursued six proposals, three of which involve Iran, and all of which have largely failed to change Turkmenistan's vulnerability. First, in 1994, Niyazov announced an agreement with Iran to begin a Turkmenistan-Iran-Turkey-Bulgaria gas pipeline. The pipeline was expected to extend 2,500 miles (4,000 kilometers) with an initial capacity of 15 billion cubic meters annually, later to be expanded to 28 billion cubic meters. The partners estimated the cost at \$8 billion, with Iran financing \$3.5 billion to start construction. The U.S. vigorously opposed the concept. In 1995, President Bill Clinton issued an executive order, which President George W. Bush extended in March 2004, prohibiting U.S. companies and their foreign subsidiaries from conducting business with Iran. Furthermore, the U.S. Iran-Libya Sanctions Act of 1996 imposed mandatory sanctions on foreign companies that invested more than \$20 million per year in Iranian oil and natural gas sectors.³⁹ With Russian and U.S. opposition, the project which was scheduled to begin in 1998 has not materialized.⁴⁰

The second rather modest proposal has been the only one to reach fruition. In 1997, Turkmenistan and Iran completed a short connecting export pipeline between their two states. The \$190 million Korpeje-Kord Kuy pipeline includes a 25-year contract under which Iran will purchase between 5 and 6 billion cubic meters annually. With this deal,

³⁸ U.S. Energy Information Administration, September 2005, Central Asia Factsheet, <www.eia.doe.gov> (June 2 2006).

³⁹ U.S. Energy Information Administration, U.S. Department of Energy, "Iran: Background," <<http://eia.doe.gov/cabs/Iran/Background.html>> (February 3 2006).

⁴⁰ Ahmed Rashid, "Vital Statistics: Proposed Gas Pipelines from Turkmenistan," *Drillbits & Tailings* 6, 8 (October 2001), original source: *Taliban: Militant Islam, Oil and Fundamentalism in Central Asia* (New Haven: Yale University Press Books, 2001); James Purcell Smith, "Turkmenbashi's Gas Games: Gas for Power?," *Central Asia-Caucasus Analyst*, June 2003.

Turkmenistan became the first Central Asian state to bypass Russia in exporting natural gas via a pipeline.⁴¹

The third pipeline was a revival of the first proposal. In 1998, Turkmenistan's Minister of Oil and Gas announced that the state was "determined to transfer its oil and gas through Iran."⁴² The proposed pipeline would go south into Iran and then west to Turkey where it could reach worldwide markets. Based on standing policy toward Iran, the U.S. immediately opposed this idea, as it had the 1994 proposal. As with the initial project, Turkmenistan and Iran have made no progress on the pipeline.

The fourth proposal has recently moved closer to actuality. Until 1997, Unocal (which merged with Chevron in 2005) was a major player in Turkmenistan. The American company led the multinational Central Asia Gas Pipeline consortium, designed to evaluate the feasibility of a pipeline that would head south from Turkmenistan, down through Afghanistan, and into Pakistan, the so-called TAP pipeline named after the participating states. Eventually, the pipeline might connect to the increasingly energy thirsty Indian market. Unocal suspended operations in August 1998.⁴³ When the U.S. ousted the Taliban from Afghanistan in 2001, states began again discussing TAP. In July 2003, the Asian Development Bank put the 1,000-mile long project on hold, citing concern about its feasibility, both in terms of the southern route and the projected gas reserve levels.⁴⁴ The Asian Development Bank officially invited India to participate in the venture but India government declined, citing continued conflict with Pakistan.⁴⁵ In February 2006, India reversed itself, announcing that it would join the \$3.5 billion project.⁴⁶ The pipeline is expected to have an annual carrying capacity of 33 billion cubic meters of gas.⁴⁷ While the pipeline will significantly aid Turkmenistan

⁴¹ Nancy Lubin, "Turkmenistan's Energy: A Source of Wealth or Instability?," in *Energy and Conflict in Central Asia and the Caucasus*, Robert Ebel and Rajan Menon, ed. (Maryland: Rowman & Littlefield Publishers, 2000); U.S. Energy Information Administration, U.S. Department of Energy, "Caspian Sea: Background,"

<www.eia.doe.gov/emeu/cabs/Caspian/Background.html> (March 2006).

⁴² "Turkmenistan 'Determined,'" *BBC Worldwide Monitoring*.

⁴³ Unocal, Press Release, "Unocal Reiterates Afghan Position at Annual Meeting of Stockholders," Updated May 20 2002,

<www.unocal.com/uclnews/98news/centgas.htm> (March 14, 2006).

⁴⁴ Nadeem Malik, "Turkmenistan-Afghanistan-Pakistan Pipeline Project Put On Hold For Reassessment," *Financial Times, World News Connection*, July 8 2003.

⁴⁵ "Delhi Spurns TAP Line," *Platts International Gas Report*, August 1 2003.

⁴⁶ "India to Join Turkmenistan, Afghanistan, Pakistan Gas Project," *BBC Monitoring International Reports*, February 20 2006, Financial Times Information, original source PTI news agency, New Delhi, February 20 2006.

⁴⁷ "Trans-Afghanistan Pipeline committee to meet in Pakistan in April," *Interfax News Agency*, Russia and CIS Business and Financial Newswire, February 16 2006 <<http://web.lexis-nexis.com/universe>> (March 2006).

in finding alternate routes, Asian Development Bank specialists have noted that Turkmenistan needs other producing fields to meet the continued and rising demands of South Asia.⁴⁸

The fifth project, supported by Exxon, Mitsubishi, and the Chinese National Petroleum Company, called for building a 5,000 mile (8,000 kilometer) pipeline originating in Turkmenistan and running north through Uzbekistan and Kazakhstan, stretching into China and eventually Japan. In 1998, the pipeline was projected to carry up to 30 billion cubic meters of gas annually, cost \$8-11 billion, and begin operating in 2005.⁴⁹ Although construction never commenced, the project has recently been revitalized.⁵⁰ I discuss this deal in greater detail below.

Finally, the U.S., working with Turkmenistan, Azerbaijan, Georgia, and Turkey, has championed a Trans-Caspian Gas Pipeline that would bypass Russia by going under the Caspian Sea. The 1,200 mile (2,000 kilometer) pipeline would plunge 200-300 meters beneath the Caspian and cost an estimated \$2.5 to \$3.0 billion. The carrying capacity would increase in stages, beginning with 10 billion cubic meters and ramping up to 30 billion cubic meters.⁵¹ In 2000, Turkmenistan withdrew from the project after dismissing numerous proposals and demanding billion dollar financing before the project began.⁵² With the gas pipeline connecting Azerbaijan to Turkey nearly completed, the U.S. recently revived its lobbying efforts for the Trans-Caspian pipeline, which would connect to the Europe-bound one. Kazakhstan's Foreign Minister has expressed his state's support while Turkmenistan remains uncommitted.⁵³

Although Niyazov had reason to believe at the time of Turkmenistan's independence that he could garner sufficient foreign investment to escape Russian domination, he has miscalculated his state's reserves, negotiating complexities, and investor interest and patience for his eccentricities. *Platts Energy Economist* complained that "Niyazov

⁴⁸ Rashid Ashraf, "Turkmenistan-Afghanistan-Pakistan Gas Pipeline Project," *Financial Times Information*, November 24 2005; "South Asia looks north for gas," *Platts International Gas Report*, October 21 2005.

⁴⁹ "China Gas Pipeline Study for Turkmenistan," *New Europe On-Line*, Financial Times Information, November 9 1998 <<http://web.lexis-nexis.com/universe>> (February 3 2006).

⁵⁰ "Working group studies Turkmenistan-China pipe (part 2)," *Interfax*, Central Asia Newswire, December 1 2005 <<http://web.lexis-nexis.com/universe>> (March 2006).

⁵¹ "Outlook for Kazakhstan's Gas Industry," *Asia Pulse*, September 20 2005, <<http://web.lexis-nexis.com/universe>> (June 16 2006).

⁵² The oil pipeline that was part of the original initiative opened in 2005. U.S. Department of State, "United States Welcomes Opening of Caspian Basin Pipeline." <<http://usinfo.state.gov/eur/Archive/2005/May/25-468295.html>> (March 2006); U.S. Department of State, Bureau of South and Central Asian Affairs, "Background Note: Turkmenistan," January 2006 <<http://www.state.gov/r/pa/ei/bgn/35884.htm#econ>> (March 13 2006).

⁵³ "Turkmenistan's promises on gas appear much bigger than its ability to deliver," *Platts Energy Economist*, May 1 2006 <<http://web.lexis-nexis.com/universe>> (June 22 2006).

can quite literally decide on one course of action in the morning, but then on quite another course in the afternoon.”⁵⁴ His focus on Iran has not born fruit, in large part because any venture involving that state will not obtain funding from the West, a situation likely to only worsen given Iran's nuclear ambitions. The Leader of All Turkmen has misunderstood how much Western investors are willing and able to pay, and thus has imprudently played his hand.

What about China?

With the West disenchanted and Iran blocked, Niyazov has again directed his attentions to and hopes on the East. In April 2006, Turkmenbashi visited President Hu Jintao for the first time in 8 years. He arrived with a contract that would tie the two states together via a pipeline stretching to Shanghai and strategically sidestepping Russia. Under the agreement, Niyazov committed his state to deliver to China 30 billion cubic meters of natural gas annually for 30 years. Hu agreed that China would assist in constructing the pipeline, scheduled to be completed in 2009. Harkening back to ancient connections, Niyazov colorfully called the pipeline the Great Silk Road of the 21st Century. The planned pipeline will stretch 2,500 miles (4,000 kilometer), from the Amu-Darya River basin, located on Turkmenistan's northeastern border, passing north through Uzbekistan and Kazakhstan. As part of the deal, China agreed to provide a \$25 million low-interest (3 percent) loan to Turkmenistan for purchasing Chinese drilling equipment.⁵⁵ With China's agreement to pay in U.S. dollars, the deal is certainly preferable to Russia's lock on Turkmenistan's export routes.

If the pipeline can be built, how much natural gas would China require? While the ancient Greeks worshiped mysterious fires fueled by natural gas escaping through the rocks, the Chinese were the first people to use natural gas for worldly purposes. In 500 BC the Chinese devised a system of bamboo pipelines that transported the naturally occurring gas to facilities where it was used to boil away sea water, thus producing salt.⁵⁶ Ironically, modern China has only recently rediscovered the virtues of natural gas, having instead relied heavily on coal and oil. Coal accounts for 66 percent of the total primary energy consumption; oil for

⁵⁴ *Ibid.*

⁵⁵ The Times of Central Asia, "Turkmenistan's Breakthrough to China," April 15 2006, <www.timesca.com/news/AllNews/Turkmenistan/2006/04/15/0082548> (May 11 2006); "Turkmen-Chinese Gas Pipeline to Become New Silk Road – President," *China Energy Weekly*, April 14 2006 <<http://web.lexis-nexis.com/universe>> (June 16 2006).

⁵⁶ Natural Gas Supply Association, "Overview of Natural Gas: History." <<http://www.naturalgas.org/overview/history.asp>> (June 5 2006).

25 percent; and natural gas a scant 3 percent.⁵⁷ By contrast, the world average for natural gas is 24 percent.⁵⁸

Worldwide, China ranks 19th in natural gas consumption and meets all of this demand with domestic resources.⁵⁹ This will soon change. Historically, only cities near production sites used natural gas in significant amounts. Furthermore, China rarely uses natural gas for power generation, but rather to produce fertilizer.⁶⁰ However, as the damaging health and environmental effects of coal, including acid rain on neighbors Japan and Korea, have become impossible to ignore⁶¹ and upon discovering new natural gas reserves, the Chinese government has started converting larger cities from coal to natural gas. Shanghai, for example, now prohibits building new coal power plants, favoring natural gas instead. As the switch occurs and the economy continues its rapid growth, Chinese demand for natural gas will increase dramatically.

The Chinese government anticipates a 7 percent annual growth rate in natural gas use between 2000 and 2020. During that 20-year period, according to the Energy Research Institute of China, total energy use will double, with natural gas fueling much of the growth.⁶² Table 1 shows 1997 natural gas use in China as well as projected demand for 2020. The projected figures suggest a nearly 1,000 percent increase in natural gas consumption between 1997 and 2020.⁶³ Natural gas will then account for about 12 percent of total primary energy consumption, compared to the current 3 percent.

China has rapidly built internal pipelines to transport the higher volumes throughout the state. By the end of 2003, the total length of gas pipelines reached 13,000 miles (21,000 kilometers). By 2010, China

⁵⁷ Kensuke Kanekiyo, "Diversifying Energy Sources of Northeast Asia: Role of Government Initiative toward Sustainable Development," March 2004, presented at the 8th International Conference on Northeast Asian Natural Gas Pipeline, Shanghai, China, <<http://eneken.ieej.or.jp/en>> (June 2006).

⁵⁸ Shulin Su, "The Prospect of the Development of China's Natural Gas Industry," September 20 2004, <www.cnpc.com.cn/english/xwygg/speeches/200507220005.html> (May 26 2006).

⁵⁹ U.S. Energy Information Administration, "Top World Oil Consumers, 2004" and "Top World Oil Net Importers, 2004" <www.eia.doe.gov/emeu/cabs/topworldtables3_4.html> (May 23 2006). The CIA's World Fact Book lists slightly different numbers, though the rankings are the same.

⁶⁰ Kaora Yamaguchi and Keii Cho, "Natural Gas in China," Institute of Energy Economics, Japan, August 2003, <<http://eneken.ieej.or.jp/en>> (March 3 2006).

⁶¹ China has 16 of the world's 20 most-polluted cities, according to the World Bank, as reported by Oster and Barta (March 3 2006).

⁶² Yamaguchi and Cho, "Natural Gas in China."

⁶³ In 2002, the Chinese government anticipated a demand of 96 billion cubic feet in 2010. By fall 2004, the government had already increased this estimate to 120 billion cubic meters (see Su, p.2 and Yamaguchi and Cho, "Natural Gas in China," p. 4). Thus, the 2020 estimate may well be too low as well.

anticipates the long-distance pipeline structure will stretch a total of 22,000 miles (36,000 kilometer), thus meeting the state's transportation demands for both domestic and imported gas.⁶⁴

China's escalating need will come amid a worldwide increase in demand. Of the three major fuels (oil, coal, and gas), the U.S. Energy Information Agency expects natural gas to increase by the largest percentages, with demand growing by 2.3 percent annually between 2002 and 2025, compared to an annual increase of 1.9 percent for oil. Worldwide, demand is projected to increase by 70 percent over the 24 year period. In addition to Asia, most of the increase will be in the former Communist states in Eurasia and Eastern Europe.⁶⁵

Table 1: China's Actual and Projected Natural Gas Demand, by Sector

Demand by Sector (billion cubic meters/year)		
	1997	2020
Power	2	81
Residential use	2	50
Chemical/Fertilizer	8	33
Industry & Other	7	40
Total	19	204

Source: International Energy Agency, *Developing China's Natural Gas Market, 2002*.⁶⁶

China has thus far met demand by increasing local supply. In 1995, domestic production totaled 18 billion cubic meters; this number jumped to 28 billion cubic meters only five years later.⁶⁷ Production has continued to increase. In 2003, China produced 34 billion cubic meters, showing an average 7.2 percent annual increase since 2000. Despite these remarkable advances, China will soon incur a shortfall. According to Shulin Su, Vice President of China National Petroleum Corporation, which produces about 75 percent of the state's natural gas, China will need to import 40 billion cubic meters in 2010, with that figure doubling to 80 billion cubic meters in 2020.⁶⁸

Despite the projected demands and recently signed accord, six factors justify skepticism about the Turkmen-Chinese deal. First, the timeline may be "hopelessly optimistic."⁶⁹ While many pipeline deals in Central

⁶⁴ Su, "The Prospect of the Development of China's Natural Gas Industry."

⁶⁵ U.S. Energy Information Agency, *International Energy Outlook, 2005*.

⁶⁶ Reproduced in Kaora Yamaguchi and Keii Cho. August 2003. "Natural Gas in China." Institute of Energy Economics, Japan. <<http://eneken.iecej.or.jp/en>>. Original source Energy Research Institute, China.

⁶⁷ Yamaguchi and Cho, "Natural Gas in China."

⁶⁸ Su, "The Prospect of the Development of China's Natural Gas Industry."

⁶⁹ "Turkmenistan/China economy: Gas accord—just hot air?," *EIU ViewsWire*, April 5 2006.

Asia have been discussed and even some contracts signed, few have been brought to fruition and virtually none of them on time. With 2009 only 3 years away, it seems unlikely that a 2,500 mile pipeline that has no clear funding source will be completed in time. In 2000, when the pipeline was first being discussed, Niyazov declared it would take a decade to implement the project.⁷⁰ Furthermore, despite grand proclamations, Niyazov has repeatedly bedeviled his own ambitions for greater international assistance critical for producing and exporting Turkmenistan's natural gas. Unless he learns from these mistakes, this deal, too, will be delayed and possibly abandoned.

Second, Turkmenistan's reserve levels remain unknown, with specialists lowering their earlier estimates. For example, a 1996 *Financial Times* article reported that international firms "descended on" Turkmenistan with competing pipeline proposals to "unlock the world's third largest gas reserves."⁷¹ By 2004, the *Oil & Gas Journal* ranked Turkmenistan as 13th in reserves, with 74 trillion cubic feet instead of the 100 trillion reported in earlier analyses.⁷² The U.S. Energy Information Administration dismisses the Caspian Sea countries as currently "relatively minor world oil and natural gas producers, struggling with difficult economic and political transitions,"⁷³ and the CIA's *World Factbook* ranks Turkmenistan as only 19th in proved reserves.⁷⁴ Niyazov's closed regime prevents outside experts from independently and accurately measuring reserve levels. Given the president's penchant for hyperbole, industry specialists are understandably circumspect.

A third reason for skepticism is Turkmenistan's over-commitment. When one adds up Niyazov's various commitments, the state would have to export as much as 190 billion cubic meters in 2010; this includes 50 to Russia, 30 to China, 14 to Iran, 40 to Ukraine, 30 to India/Pakistan, and 30 to Europe via the Caspian pipeline.⁷⁵ With last year's total production at 63 billion cubic meters,⁷⁶ Turkmenistan would have to more than triple its production to fulfill these export commitments. However, given the failure of almost all of Niyazov's many proposals, one could reasonably

⁷⁰ "China-Turkmenistan gas pipeline discussed in Ashkhabad," *Interfax*, July 12 2000.

⁷¹ Sander Thoenes, "Oil Groups Vie to Pipe Turkmen Gas Wealth," *Financial Times*, March 20 1996, <<http://web.lexis-nexis.com/universe>> (June 14 2006).

⁷² "Worldwide Look at Reserves and Production," *Oil & Gas Journal* 102, 47 (December 20, 2004): 22-23; American University Trade and Environment Database, "Turkmen Oil and Natural Gas: The Viability of Delivering Prosperity to Global Markets," case number 385, <www.american.edu/projects/mandala/TED/turkmen.htm> (January 30 2006).

⁷³ U.S. Energy Information Administration, "Caspian Sea: Background."

⁷⁴ U.S. Central Intelligence Agency, *World Factbook*. "Rank Order—Natural Gas—Proved Reserves," <www.cia.gov/cia/publications/factbook/rankorder/2179rank.html> (June 14 2006).

⁷⁵ "Turkmenistan's Promises," *Platts Energy Economist*.

⁷⁶ U.S. Department of State, "Background Note: Turkmenistan".

expect some of these deals to collapse, making it possible for Turkmenistan to fulfill a minority of them. In addition, with other supplying states helping fill the pipelines, they may still be sound investments.

The fourth factor warranting concern is China's slow progress in reducing its dependence on coal burning facilities and correspondingly increasing natural gas consumption. In an 18-month period ending in July 2005, the Chinese government approved barely any natural gas power plants. Of the 168 approved plants, nearly all will burn coal.⁷⁷ China's sluggish conversion almost certainly comes from rising gas prices. The state's inability to secure reliable sources at low prices accounts for some cities and enterprises opting to stick with coal. Turkmenistan, and others, may be able to make the difference. In addition, despite China's slow conversion rate, natural gas now fuels 2.1 percent of power plants, compared to virtually none only a few years ago.⁷⁸

Fifth, Turkmenistan has generally played a weak role in Chinese international relations, potentially making close cooperation a more distant goal. Bilateral trade has remained minimal, particularly when considering China's economic might and the proximity of the two states. Among all China's trading partners in 2005, Turkmenistan ranked 130th, just behind Mozambique.⁷⁹ Turkmenistan's trade levels with the EU, the U.S., and Turkey far outweigh those with China, as shown in Tables 2a and 2b.

Table 2a: Turkmenistan's imports (millions of dollars)

Origin	1999	2000	2001	2002	2003	2004
China	7	12	31	87	79	85
EU (25)	220	148	224	313	375	507
Turkey	107	119	105	118	170	215
U.S.	18	73	248	47	34	295

Table 2b: Turkmenistan's exports (millions of dollars)

Destination	1999	2000	2001	2002	2003	2004
China	2	4	1	1	4	14
EU (25)	264	204	141	183	323	616
Turkey	67	98	72	99	124	176
U.S.	9	30	51	63	81	87

Sources: World Trade Organization⁸⁰

⁷⁷ Shai Oster and Patrick Barta, "China Stumbles in Attempt to Cut Oil and Coal," *Wall Street Journal*, March 3 2006.

⁷⁸ *Ibid.*

⁷⁹ My thanks to Dr. Hsiu-Ling Wu, at Tamkang University in Taipei, Taiwan, for providing updated and detailed customs data to me via several email exchanges, May 29-31, 2006.

⁸⁰ "International Trade Statistics 2005." Trade by Region, Table III.48 and Table III.49, p. 77-78 <www.wto.org/english/res_e/statis_e/its2005_e/its05_byregion_e.htm> (April 18

China's focus on border trading does nothing to improve low trade levels with Turkmenistan.⁸¹ Similarly, Turkmenistan has benefited little from China's "Step Out" program, which urges enterprises to invest overseas.⁸² Although Central Asian states have received some foreign investment from China, Kazakhstan has been the primary beneficiary. Most notably, in a remarkable achievement that defied many observers' expectations, on July 31, 2006, Kazakh crude oil flowed to China via a newly constructed pipeline that had been ten years in the making.⁸³ In contrast, during the ten-year period from 1992 to 2002, Turkmenistan had only 2 projects with China, worth a total of \$300,000.⁸⁴ Despite this slow start, investment has recently accelerated. By early 2003, China had invested in 19 projects in Turkmenistan, valued at \$210 million, the majority dedicated to the oil and gas sector.⁸⁵ As of July 2005, Turkmenistan reported that China was involved in 37 investment projects valued at \$383 million.⁸⁶ This trend shows promise for a tighter Chinese-Turkmen economic relationship.

The final factor complicating the picture is Turkmenistan's need to cooperate with Uzbekistan and Kazakhstan whose lands separate Turkmenistan from China. Since independence, relations between Uzbekistan and Turkmenistan have often been tense. Disputes over water rights and treatment of ethnic minorities have persisted. These ongoing clashes were dramatically overshadowed when Niyazov charged the Uzbekistan government with attempting to assassinate him. Furthermore, Uzbekistan competes with Turkmenistan as a natural gas supplier, raising questions about its interest in advancing its southern neighbor's exports to high demand China. In addition, as noted above,

2006; "International Trade Statistics 2002," Trade by Region, Table III.53 and Table III.54, pp. 78-79, <www.wto.org/english/res_e/statis_e/its2002_e/its02_byregion_e.htm> (June 8 2006). Statistics for the EU represent the EU-15 for 1999-2001 and the EU-25 for 2002-2004.

⁸¹ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration Between China and the Five Central Asian Countries," *Europe-Asia Studies* 56, 7 (2004): 1070-1071.

⁸² Yuen Pau Woo and Kenny Zhang, "China Goes Global: The Implications of Chinese Outward Direct Investment for Canada," Presented at the Canadian Economics Association annual meeting, May 26-28 2006, <<http://economics.ca/2006/papers/0892.pdf>> (June 1 2006).

⁸³ "Kazakh Crude Oil Flows Into China," *Financial Times Information Limited - Asia Intelligence Wire*, July 31 2006.

⁸⁴ Hsiu-Ling Wu and Chien-Hsun Chen, "The Prospects for Regional Economic Integration Between China and the Five Central Asian Countries," 1073-1075. (Original source is the *Almanac of China Foreign Economic Relations and Trade, 1993-2003*)

⁸⁵ "China upbeat about cooperation with Turkmenistan in oil, gas," *ITAR-TASS*, February 16 2003.

⁸⁶ "Chinese delegation visit to Turkmenistan results in signing of a number of bilateral documents," *Turkmenistan.ru*, July 20 2005, <www.turkmenistan.ru> (April 18 2006).

Kazakhstan and Uzbekistan have been more actively engaged with China than Turkmenistan.⁸⁷ These closer relations might predispose China to working with these states rather than Turkmenistan. Also, Uzbekistan ranks among the most corrupt states worldwide, which may translate into delays so substantial and costly as to break the deal.⁸⁸ Finally, in a dramatic geopolitical shift, Uzbekistan recently abandoned its arms-length policy toward Russia and joined the Russian designed and dominated Eurasian Economic Community.⁸⁹ This move might signal a shift toward Russia and away from China, giving Uzbekistan little reason to cooperate on a pipeline to China.

Several factors suggest that Turkmenistan may be able to work around these complications with its neighbors. First, the states' leaders recently patched up their differences while sipping champagne.⁹⁰ Second, Turkmenistan and Uzbekistan currently have a different client base. With the Tashkent-Bishkek-Almaty pipeline as Uzbekistan's main conduit, Kyrgyzstan and southern Kazakhstan import much of this state's natural gas. Turkmenistan's clients have been to the West and South. In the immediate future, then, they are not direct competitors. Third, Uzbekistan has recently signed several major joint ventures with Gazprom in which the Russian gas giant will develop Uzbekistan's gas fields, export its gas, and build new export pipelines.⁹¹ Although Russia has focused on moving this gas to Europe, if lucrative markets develop in China as expected, Gazprom would want in on the deal and could take Uzbekistan with it. Thus, a Turkmenistan deal does not cut out Uzbekistan. Fourth, and related to the previous point, China's expected demand for natural gas is so great that both states may well be needed to satisfy it, thus reducing potential rivalries.

⁸⁷ Qin Jize, "Uzbekistan, China ink partnership treaty," *China Daily*, May 26 2005, Embassy of the Republic of Uzbekistan in China, <www.uzbekistan.cn> (May 26 2005).

⁸⁸ The Corruption Perceptions Index ranks Uzbekistan 137 out of 159 states; Turkmenistan is worse, ranking in the bottom five. Internet Center for Corruption Research, "The 2005 Corruption Perceptions Index," <www.icgg.org/corruption.cpi_2005_data.html> (June 21 2006).

⁸⁹ Uzbekistan has thus far declined to join Russia's military alliance. Ben Wetherall, "Russia Upholds Uzbek Status Quo and Inks Gas Deal, Uzbekistan Admitted to Regional Alliance," *World Market Analysis*, January 26 2006, <<http://web.lexis-nexis.com/universe>> (June 13 2006); Sergei Blagov, "Uzbekistan Sets Limits for Cooperation with Russia," *Eurasianet*, February 25 2006, <<http://web.lexis-nexis.com/universe>> (June 13 2006).

⁹⁰ "Turkmen, Uzbek Leaders Declare End to Differences," *Agence France Presse*, November 19 2004, <<http://web.lexis-nexis.com/universe>> (June 22 2006).

⁹¹ "Uzbekistan to Set Gas Price to World Practice, Offers New Resources," *Russia & CIS Oil and Gas Weekly*, May 24 2006, <<http://web.lexis-nexis.com/universe>> (June 13 2006).

Impact on China-Russia Relations

If Turkmenistan and China can overcome the hurdles they face with this pipeline deal, Turkmenistan would break free of Russia's monopoly on its gas exports. Without this critical lever, Russia would no longer be able to dictate how much gas Turkmenistan can export, where those exports can go, and how much it can charge for the gas. China's purchases may well diminish how much gas Turkmenistan then sells to Russia. In addition, with a second client, Niyazov would have the negotiating power to demand higher prices from Russia. Since Russia resells Turkmenistan's gas at two to three times the price it pays for it, the deal with China would seriously impact Russia's foreign currency earnings as well as diminishing the strategic value that Gazprom plays in the region. Given the important role that Turkmen gas has been playing, Russian President Vladimir Putin and his administration have compelling reasons for blocking the deal. Whether they will attempt to stop the deal and if so, whether they will succeed, depends on the outcome of a complicated and evolving relationship between China and Russia.

The two great powers are engaged in a complex courtship that involves overt cooperation combined with underlying competition. The two states are the founders and forces behind the Shanghai Cooperation Organization (SCO), which includes four of the five Central Asian states, Turkmenistan being the outsider. The SCO has claimed all arenas within its purview. According to the founding Declaration, its goals are "to strengthen mutual trust, friendship and good-neighborliness between the member States; to encourage effective cooperation between them in the political, trade and economic, scientific and technical, cultural, educational, energy, transport, environmental and other spheres; and to undertake joint efforts for the maintenance of peace, security and stability in the region, and the building of a new, democratic, just and rational international political and economic order."⁹² Among many proposals is one to increase energy cooperation, including exploration and pipeline construction.⁹³ Although Turkmenistan is not an SCO member, if the organization became a critical regional player, Niyazov may well reconsider his position and join hands with the others.

To date, the real energy cooperation game is occurring outside the SCO framework. China desperately needs resources for its expanding economy, and Russia is positioned to deliver the goods. In bilateral agreements, Russia and China have signed several energy deals, most recently during a trip Putin made to Beijing in March 2006. Just one

⁹² "Declaration on the Establishment of the Shanghai Cooperation Organization," <http://missions.itu.int/~kazaks/eng/sco/sco02.htm> (July 13 2006).

⁹³ Shanghai Cooperation Organization, "Chronology of Main Events," <http://www.sectsc.org/html/00030.html> (August 1 2006); and Richard Weitz, "Reading the Shanghai SCO Summit," *Central Asia-Caucasus Analyst*, July 12 2006.

month before Niyazov announced his deal, Russia and China had agreed to build a 1,700 mile (2,800 kilometer) pipeline from Russia's Altai field in Western Siberia to China. China contracted Russia to supply 30 billion cubic meters a year by 2020; initial gas flow would begin in 2011, two years after the Turkmenistan pipeline is scheduled to open.⁹⁴ While the initial flows are lower than those expected from Turkmenistan, the Russian pipeline would be shorter and built on existing paths and structures, raising the likelihood it will be completed. In addition, the two states agreed to send gas to China from Eastern Siberia, also at about 30 billion cubic meters a year; fewer details have been released on this deal. Each pipeline is expected to cost about \$5 billion.⁹⁵

Despite the grand ambitions and proclamations for integration, China has the ability to challenge and upset some of Russia's most important strategic interests in Central Asia, most notably control over oil and gas production and flows. While Turkmenistan has the greatest need for multiple export routes, all of the Central Asian energy producers benefit from alternatives to Russia. With their massive and expanding market, the Chinese are thus popular partners. In the case of Turkmenistan, if Russia cannot dictate the prices and volumes of natural gas exports, it loses some of its own power in the region. Furthermore, deals with Turkmenistan and others may diminish the quantity of Russian exports to China, as well as the price that Russia can charge.

The Russians clearly recognize the threat and have responded accordingly. One month after the Turkmen-Chinese accord, Gazprom leaders met with the Vice President of China National Petroleum Corporation. At the conclusion of the meeting, they announced that "China confirmed the priority of supplying gas from Russia to meet China's growing gas demand." The statement emphasized that China would give priority to Russian natural gas over other sources.⁹⁶

Chinese leaders can choose to challenge Russia in the region or to collude with it to gain greater benefits from the smaller states. For now, the Chinese are multiplying their options, reaching out to several Central Asian sources, while simultaneously reassuring Russia that it is the first among the partners.

⁹⁴ "China to give priority to Russia over other CIS gas suppliers," *Russia & CIS Business and Financial Newswire*, May 12 2006.

⁹⁵ "Russia and China Sign Gas Agreements," *The Russian and Oil Gas Report*, March 24 2006.

⁹⁶ "China to give priority to Russia over other CIS gas suppliers," *Russia & CIS Business and Financial Newswire*, May 12 2006.

Conclusions

Turkmenistan's President and dictator-for-life, Saparmurat Niyazov, has pursued a foreign policy focused on escaping Russia's stranglehold on its natural gas exports. After frustrations with the West and failed deals with Iran, Niyazov is again looking east toward China. This shift occurs as China's demand for natural gas is expected to increase dramatically over the next 20 years, giving China the potential to dominate the demand-side of the market. In April 2006, Turkmenistan and China agreed to build a 2,500 mile pipeline to move Turkmen natural gas to the Chinese market. With Russian delays in moving forward on pipelines to China and Russian aggressiveness toward Turkmenistan, both states have reason to make the pipeline a reality.⁹⁷ Each would secure alternatives to Russia: China, a gas-rich supply alternative, and Turkmenistan, a gas-hungry demand alternative.

However, as elaborated above, several hurdles stand in the way, including high costs, uncertain reserve levels, unrealistic commitments, Niyazov's quirky personality, other transit states' reluctance to grant access, and China's slow progress in converting from coal to natural gas. These combined hurdles will certainly make it impossible to meet the stated timelines. Still, the involved states have strong incentives to clear the hurdles, even if at a lower level and arriving late.

Niyazov has committed to deliver more natural gas than his state can reasonably produce. Clients include Russia, China, Iran, Ukraine, India, Pakistan, and unnamed European states. Having failed to secure necessary foreign direct investment, Niyazov now seems prepared to sign deals with anyone who will proffer them. Since none of these deals ask Turkmenistan to put up cash, the dictator appears prepared to let other factors determine which will be completed. The governments and energy firms of Russia, China, Europe, and the United States will then play critical roles, as they tout their own favorite options and are then tested to solve the technological and fiscal challenges that each route faces.

This piece began with a puzzle: why is Turkmenistan in the same bed of Russia Resisters as the Baltic states, the former being a prime example of a dictatorship and the latter group synonymous with post-Communist states that have fully transitioned to democracy and capitalism? The Baltic states were known for their strong distaste for the Soviet system and for their pro-democracy movements, making their choice to flee Russia no great surprise. The same cannot be said of Turkmenistan; other factors must explain its refusal to integrate further

⁹⁷ For more on the tensions between Russia and China, see Stephen Blank, "China, Kazakh Energy, and Russia: An Unlikely M \acute{e} nage \grave{a} Trois," *The China and Eurasia Forum Quarterly* 3, 3 (November 2005): 99-109; and Niklas Swanström, "An Asian Oil and Gas Union: Prospects and Problems," *The China and Eurasia Forum Quarterly* 3, 3 (November 2005): 81-97.

with Russia. Most importantly, the state's economic vulnerability to Russian pipelines and Russia's opportunistic behavior have pushed Turkmenistan away from its former leader. In addition, the state's vast resources and geographic position has led Niyazov to believe that he could obtain economic independence. If he cannot, he may have to change strategies. China's ability and willingness to produce an expensive and extensive pipeline will in part determine whether Turkmenistan gets pulled back into the bear's embrace.

Securing the Maritime Silk Route: Is there a Sino-Indian Confluence?

*Gurpreet Singh Khurana**

ABSTRACT

The economic eminence of two fast-developing economies, China and India, is clearly on the rise. The developmental index of a state is closely linked to its reliance on sea-borne trade and its need for energy resources, and thus the increasing criticality of sea-lines for the two countries. In particular, the principal sea-route extending from the waters of the Arabian Peninsula to the western Pacific has assumed immense significance, almost akin to the historic “Silk Route”. However, this route transiting the Indian Ocean is plagued by serious insecurities due to proliferation of an array of non-traditional threats that hitherto never figured in the calculations of states. The paper examines the imperatives of cooperative security for China and India and explores the possible geo-strategic convergence between them, which could be translated into a symbiotic relationship to secure their “maritime lifelines”.

Keywords • Indian Navy • Chinese Navy • Maritime Silk Route • New Silk Route • Strait of Hormuz • Strait of Malacca • Sea-lines of Communications

Characterized by globalization, the present times bear a new flavor for international relations. The economic reforms and liberalization undertaken by countries have led to a frenzy of commercial interactions amongst them and increased their participation in related global arrangements like the International Monetary Fund (IMF) and the World Trade Organization (WTO). The Asia-Pacific has been the frontrunner in this process - preferential and free trade agreements are mushrooming in the region at bilateral and multilateral levels, causing the flow of trade and investments to grow exponentially. Such robust and accelerating economic growth in some countries, particularly China and India, is also leading to a sharp rise in the demand for energy resources.

The maritime domain has always been a cost-effective medium for merchandise trade amongst countries, particularly for voluminous commodities. These include fossil-fuel resources like oil, coal and natural gas, which constitute about half of sea-borne trade. While growing trade is increasing the reliance on mercantile shipping directly, it is doing so in an indirect manner too. The accelerating economic growth of countries is

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increasing their appetites for energy. The present global oil consumption has crossed 80 million barrels per day (Mb/d) and growing at an annual rate of 2.5 Mb/d. Two-thirds of the world's oil trade, including refined products, moves via the sea. Natural gas consumption, which stands at 2689 billion cubic meters (Bcm) today, is growing at the rate of 3.3 percent per year and is expected to overtake coal and rival oil as the leading fossil fuel by 2025, much of which will be shipped as Liquefied Natural Gas (LNG).¹ This boom is stretching all facets of sea-transportation, from the availability of vessels, to the economics of transit passage in terms of time and space.

Maritime trade, including of energy resources, is carried out along the routes that follow established *sea-lines*, viz. the shortest, most cost-effective and navigationally safe routes between "source" and "destination". It therefore follows that these are akin to "jugular veins" that channel the "lifblood" of countries for their economic sustenance and development. In naval parlance, these maritime highways are referred to as *Sea-Lines of Communication* (SLOCs). With communications being a crucial element of military operations, this is indicative of the military-strategic importance of sea-lines. It is no wonder then, that in preparation for inter-state hostilities, much of the strategic and operational-level calculations of states have been centered on security of sea-lines, and particularly where these cross the constricted waterways. However, the recent past is witness to a transformation in the global security scenario. The likelihood of major military conflicts has receded and states are realizing immense stakes in freedom of navigation at sea to further their respective economic endeavors. In the present times, the sea-lines are largely imperiled by non-traditional security threats, particularly piracy and terrorism. One therefore tends to ask, are these calculations valid today? Not entirely. Are sea-lines more secure for maritime commerce? Definitely not.

This paper examines the present-day peril to sea-lines with particular reference to China and India, the two fastest growing economies in the world. It explores the possible geo-strategic convergence between the two, which could be translated into a symbiotic relationship. Among the various schools of thought within the theory of international relations, this paper adheres to the neo-liberal rather than the neo-realist school - it advocates the importance of absolute gain over the relative gain in bilateral cooperative arrangements.

¹ BP Statistical Review of World Energy, June 2005, <www.bp.com/statisticalreview2004> (August 20 2006).

Geo-economic Stakes in Overseas Transport

Stakes for China

About 90 percent of China's trade is carried out by sea. In the past two years, its sea-borne trade growth has accounted for more than 60 percent of the world's total.² Analysis of the latest statistics regarding China's top ten trading partners yields interesting results.³ Among these partners, the European Union and India are the only ones that lie west of Malacca Straits. This implies that only about 22 percent of China's trade transits the Southeast Asian straits.⁴

China's dynamic economic and trade growth is also reflected in the fact that in 2003, it surpassed Japan to become the second largest global energy consumer. It accounts for 12 percent of global energy demand, but its rate of growth is four to five times that of the world figure.⁵ This has led to energy security emerging as a key and urgent national issue. Although China is able to meet 75 percent of its energy needs through domestic sources, which includes about 65 percent from coal, its energy situation is critical due to various factors - the static level of domestic oil production, the bottlenecks faced by the coal industry in terms of infrastructure and overland transportation, and the prediction that the increase in contribution from nuclear energy is expected to be marginal over the next two decades.⁶ China has been seeking access to Russia's vast energy reserves, but the recent Russo-Japanese pipeline agreement at the expense of China has raised anxieties further.⁷ Extrapolating into the future, experts also assert that the energy reserves of the East and South

² "China's Development Fuels World's Ocean Shipping Industry", *People's Daily online*, June 14 2005 at <http://english.people.com.cn/200506/14/eng20050614_190147.html> (August 20 2006).

³ "Top Ten Trading Partners (2005/01)," Ministry of Commerce of the People's Republic of China, March 14 2005, <<http://english.mofcom.gov.cn/aarticle/statistic/ie/200503/20050300024922.html>> (August 20 2006).

⁴ The proportion of overland trade being relatively insignificant has been discounted in the calculations.

⁵ Philip Andrews-Speed, "China's Energy Woes: Running on Empty," *Far Eastern Economic Review*, June 2005, <<http://feer.com/articles1/2005/0506/free/p013.html>> (August 20 2006).

⁶ James P. Dorian, "Growing Chinese Energy Demand: Dramatic Global Implications," presentation made at the Conference on "Implications of China's Energy Search" at the CSIS on March 23, 2005.

⁷ The reference is to the Angarsk-Nakhodka oil pipeline project. Sudha Mahalingam, "Energy and Security in a Changing World", *IDSIA Strategic Analysis*, Vol. 28(2), Apr-Jun 2004, 257-258.

China Seas would not make any significant difference to China's energy security.⁸

Since 1995, China's demand for oil has doubled from 3.4 to 6.8 Mb/d. One forecast says that by 2030 it will rise further to nearly 11 Mb/d, when imports will account for 80 percent of China's total oil needs, up from the present 40 percent.⁹ According to current trends, China's heavy dependence on West Asian oil will grow by as much as 70 percent in 2015, up from 60 percent at present.

Natural gas composes 3 percent of China's energy needs, all of which is produced domestically. However, with consumption increasing at a rate of 19 percent, LNG imports will likely commence in 2007. It is predicted that by 2025, gas imports will account for 40 percent of China's need. Although much of it would come from East Asia and Australia, a significant amount of LNG would also be sourced from West Asia.¹⁰

Stakes for India

The West has traditionally been India's dominant trading partner and will remain so in the foreseeable future. However, recent trends indicate a very rapid growth of trade with East Asian countries.¹¹ For example, India's trade with ASEAN and China, which individually stand at US\$13 to 14 billion today, has increased by 5 times in case of the former and 20 times in case of the latter in the last 10 years. Therefore, with up to 95 percent of India's trade moving by sea, the importance of sea-lines in its eastern sea-board will increase considerably.

India is presently the sixth largest energy consumer in the world. Although a study indicates that India's energy consumption will increase at a rate of 5 percent every year through 2010-11 in a "business-as-usual" scenario, the actual consumption may grow at an accelerated pace.¹² India's energy situation is more critical compared to that of China. Coal meets only half of its needs, and here too, some quantities of superior-quality coal need to be imported. While oil makes up 30 percent of the energy mix, oil reserves are relatively poor. India's mere 5 billion barrels

⁸ Roland Dannreuther, "Asian Security and China's Energy Needs", *International Relations of the Asia-Pacific*, Volume 3 (2003), 207.

⁹ International Energy Agency, *World Energy Outlook*, 2004, OECD, Paris.

¹⁰ Mikal E. Herberg, "The Emergence of China Throughout Asia: Security and Economic Consequences for the U.S.", June 7 2005 at <<http://foreign.senate.gov/testimony/2005/HerbergTestimony050607.pdf>> (August 20 2006).

¹¹ Swati Lodh Kundu, "Asian surge in India trade", *Asia Times Online*, May 28 2005, <http://atimes.com/atimes/South_Asia/GE28Df01.html> (August 20 2006).

¹² Reddy, B. Sudhakara and P. Baachandra, "A Sustainable Energy Strategy for India Revisited", *Economic & Political Weekly*, December 28, 2002, 5264-5273, quoted in Sudha Mahalingam, "Energy and Security in a Changing World", *IDSA Strategic Analysis*, Vol. 28(2), Apr-Jun 2004, 251.

of proven reserves - against China's 18 billion barrels - has led it to import 65 percent of its needs - compared to China's 40 percent - almost all from West Asia. It is estimated that consumption will rise from the present 2.6 Mb/d (2004) to 3.2 Mb/d by 2010, with India emerging as the fourth-largest oil consumer after the United States, China and Japan. This would lead to greater dependence on West Asia for oil. There is an ambitious plan to increase the contribution of renewable sources to 12 percent of the total energy mix, but this is unlikely to be reached in view of their relatively high costs and the necessary subsidies to make them viable.¹³

India is also in the process of increasing the share of natural gas in its energy mix, which presently stands at about 8 percent. Its consumption of 32.1 Bcm in 2004¹⁴ rose by 7.1 percent over the previous year, faster than any other fuel in recent years. However, domestic production is limited. There have been significant gas finds off India's east coast in 2002 and recently in June 2005, but being deep-sea finds, the production cost is expected to be too high for it to be cost-effective. Although imports through pipelines are more economical compared to the sea transportation of gas in the form of LNG, the pipeline from Iran via Pakistan and another from Bangladesh are facing "seemingly-insurmountable" political hurdles. Although the pipeline from Myanmar through Bangladesh has been approved in principle, the price negotiations have been protracted. In any case, the gestation period of gas pipeline projects is very long - it may take up to ten years after the agreement is reached.¹⁵ Thus, India is left with no option but to import LNG, all of which presently comes from West Asian countries, namely Qatar and soon, Oman and Iran.

The "New Silk Route"

Block arrows are often used on statistical maps to depict the flow of commodities across the sea-lines, their width being directly proportional to the quantity being transported. On the map of Asia, the arrow depicting energy flow that extends from the Persian Gulf to the Western Pacific through Indian Ocean is particularly broad and widening - not surprising, considering the concentration of fossil-fuel reserves in West Asia and the rising energy demand of growing economies in the Asia-Pacific. Some security specialists refer to it as akin to the fabled "Silk

¹³ Sudha Mahalingam, "Energy and Security in a Changing World", *IDSA Strategic Analysis*, Vol. 28(2), Apr-Jun 2004, 252.

¹⁴ BP Statistical Review of World Energy, June 2005.

¹⁵ Debnath Shaw, "Securing India's Security Needs - The Regional Dimension," *CSIS*, Event Summary, March 28 2005, 43, <www.csis.org/component/option,com_csis_events/task,view/id,665/> (August 20 2006).

Route”, which is indicative of its importance as a crucial link.¹⁶ Other vital sea-lines such as those from Africa and the Suez-Aden route also merge with this “New Silk Route” (NSR).

The NSR passes through the Strait of Hormuz in the west and the Straits of Malacca and Singapore in the east. The former links the Persian Gulf to the Arabian Sea and Indian Ocean, through which 40 percent of the world’s oil passes. Presently, 15 Mb/d of oil crosses this chokepoint, which includes about 60 percent of China’s imports and a similar proportion in the case of India. The Malacca-Singapore strait connects the Andaman Sea/Indian Ocean to the South China Sea/Western Pacific. This is the preferred route for most ships, through which a quarter of world trade passes aboard more than 62,000 vessels each year, carrying about half of the world’s oil and two-thirds of its LNG. 11 Mb/d of oil - 10 Mb/d from Persian Gulf plus 1 Mb/d from Africa - passes through it, which includes 80 percent of China’s imports. Between the two choke points, the NSR extends through the eight/nine-degree-channel close to India’s Lakshadweep Islands in the Arabian Sea, passes south of Dondra Head (Sri Lanka) and then crosses the six-degree-channel in the Andaman Sea between the southern tip of India’s Andaman and Nicobar Islands and the northern tip of Indonesia’s Aceh province. The sea-line then passes through the Strait of Malacca and the South China Sea to East Asian markets.

The Imperiled NSR

Much of the insecurities of sea-lines stem from inherent vulnerabilities - the unregulated nature of the maritime realm, the fragile trading system, and the transnational nature of the shipping industry.¹⁷ Energy shipments are especially assailable - entailing 4,000-odd slow-moving oil tankers that are hardly maneuverable and an increasing number of similar vessels carrying LNG, a potentially hazardous cargo. Among the global measures enacted to reduce these vulnerabilities, new technological innovations like the 9,000-volt electric fence around the ship cannot be employed onboard due to the inflammable nature of the cargo. Since the current International Maritime Organization (IMO) regulations do not permit

¹⁶ C Uday Bhaskar, “Regional Naval Cooperation,” *Strategic Analysis (IDSA)*, Vol. 15(8), November 1992, 736. His paper refers to the 4000-mile ancient “silk-route” that linked China in the East to Rome in the West as early as in the 2nd century BC. It was used to transport the much-valued silk yarn from China and was romanticized by Marco Polo while documenting his travels of the late 13th century.

¹⁷ For details, see Cdr GS Khurana, “Maritime Terrorism in Southern Asia: Addressing the Precursors,” *Indian Defence Review*, Vol. 20(1), Jan-Mar 2005, 60.

firearms on vessels, the high-pressure fire hoses onboard act as the only means for self-defense.

The NSR is particularly vulnerable at choke-points, viz. the straits of Hormuz and Malacca-Singapore. The former, which is an opening to the Persian Gulf, is only 1.5 miles wide at its narrowest point and has no alternative sea-route. Its vulnerability was palpable during the 1984-87 Iran-Iraq Tanker Wars, when even neutral vessels in the Persian Gulf were often attacked, leading to a drop in the strait shipping by 25 percent. This led to the U.S. deployment of naval forces, which continue to this day. Since then, the Gulf has been relatively tranquil, but precariously so. West Asia is a sub-region wherefrom maritime-terrorism has struck repeatedly. In 1985, the Achille Lauro was hijacked by Palestinian militants. In 2000, the state-of-the-art U.S. warship, the USS Cole, was attacked at Aden by Al Qaeda suicide bombers in an explosive-ridden dinghy, and the *modus operandi* was repeated in the same area to the French supertanker Limburg in 2002. 9/11 is indicative of the fact that terrorists are now increasingly resorting to new means of attack for greater mass effect. The energy sector could be an attractive target, the disruption of which could cripple the global economy. Besides which, the more economically powerful a state, the harder it will be hit.

The above is not mere conjecture – soon after the Limburg bombing, Osama Bin Laden's audio tape warned the West: "By God, the youths of God are preparing for you things that would fill your hearts with terror and target your economic lifeline until you stop your oppression and aggression".¹⁸ There was a lull after U.S. operations in the region, but the insecurity linked to energy has returned lately - exemplified by the April 2004 Al Qaeda suicide-boat attacks on two Iraqi oil terminals and the more recent attack in June 2005 on super-tankers employed for exporting Iraqi oil.¹⁹ The overwhelming presence of coalition naval forces in the Gulf may have deterred widespread attacks, but energy infrastructure and transportation in this volatile region remain lucrative targets and will become more vulnerable after the Western military presence is eventually scaled down.

The terrorists however cannot completely cut-off energy supplies to the West by blocking the Strait of Hormuz, since Saudi Arabia's East-West 750-mile oil pipeline (5 Mb/d capacity) from Abqaiq to Yanbu on Red Sea coast provides an alternate route. This leads to a greater likelihood of attacks on the Gulf's energy infrastructure, port facilities handling energy transportation, and West-bound tankers. A terrorist attack would have severe repercussions for China and India. They may

¹⁸ "Station Airs Alleged Osama Tape," CBS News, October 6 2002, <www.cbsnews.com/stories/2002/09/13/attack/main522015.shtml> (August 20 2006).

¹⁹ "Tanker raided at Iraq oil terminal", *ABC News Online*, June 16 2005, <www.abc.net.au/news/newsitems/200506/sl394116.htm> (August 20 2006).

be directly starved of energy. In any case, this would lead to the skyrocketing of oil prices, shipping charges, and insurance premiums. Overall, the process of economic development undertaken by these two countries would be stalled.

The Strait of Malacca is the other waterway of immense strategic importance for maritime communications, beyond just energy security. However, its vulnerabilities are as pronounced - besides the inordinately dense mercantile traffic, the waterway poses many navigational constraints. It is only 1.2 nautical miles wide at its narrowest and 22 meters deep at its shallowest. Intense fishing activity, shipwrecks and shoals pose additional pilotage problems, now further aggravated by the December 2004 tsunami that has reconfigured the underwater topography.

The major threat to shipping and sea-lines in the Southeast Asian straits is piracy, for which these waters have been infamous since historic times. Until a few years back, the boarding of ships for the petty theft of cash and valuables using knives was common. Since then, the statistics of the International Maritime Bureau (IMB) indicate that attacks have now become bolder - involving the use of automatic weapons and sophisticated equipment for hijackings, and are so well orchestrated as to resemble a military operation. Other maritime crimes like drug trafficking, gunrunning, and human smuggling are also rampant in these waters. With such "maritime traditions" added-on to the ongoing separatist movements that are supported by Jammah Islamiyah, the sub-regional Islamic fundamentalist movement linked to Al Qaeda, archipelagic Southeast Asia also has all the necessary ingredients for maritime terrorism to manifest itself and seriously threaten sea-lines. For example, terrorists could easily induce pirates with money to scuttle a hijacked ship in the most constricted portion of the Malacca Straits. Its blockage would have a severe impact on the global economy. Although alternative straits, Sunda and Lombok-Makassar, are available, this would increase the sailing distance by at least 850 nm, which is equivalent to three days' sailing time. Besides, the alternate routes are relatively poorly charted and lack good navigational aids as well as infrastructure. This would have cascading and chaotic effects - while time-sensitive freight²⁰ would be hit directly, it would also lead to the immediate rise of insurance and freight rates, especially for energy shipments, including dry bulk such as coal.²¹ Again, China and India would be among the worst hit in terms of the accelerated process of economic development that the two countries are currently undergoing.

²⁰ For fresh fish and crustaceans, the value of time could be 20 percent per day or more. See <www.atse.org.au/index.php?sectionid=236> (August 20 2006).

²¹ Eric Watkins, "Facing the Terrorist Threat in Malacca Strait," *Terrorism Monitor*, Vol II, Issue 9, May 6 2004, <www.jamestown.org/images/pdf/ter_002_009.pdf> (August 20 2006).

The response of the littoral states has been ineffective due to various reasons – besides the fact that the root cause of insecurity in these waters is deep-seated and linked to internal instabilities, maritime security mechanisms and law-enforcement capacities have been grossly inadequate. The problem is compounded due to the sensitivity of some littorals over national sovereignty issues, which have so far dissuaded these states from accepting extra-littoral assistance and even from accepting the “hot-pursuit” provision during the conduct of ongoing trilateral patrols called MALSINDO.²²

The insecurities in Southeast Asian sea-lines are reinforced by those in South Asia. While the Sri Lankan separatist group, Liberation Tigers of Tamil Elam (LTTE) maintains symbiotic links with Southeast Asian insurgencies, its naval wing, the Sea Tigers, threaten the vital sea-line south of Dondra Head. In both sub-regions, separatist insurgents have frequently been hijacking ships, either for direct material gain or extortions, with the ultimate aim of furthering their political agendas. Significantly, two of these groups have also been targeting the Achilles' heel of states, viz. energy resources. The Indonesian separatist group in Aceh has often targeted ships carrying oil and other natural resources since they believe that they have been unfairly denied access to the natural resource wealth of their province. These commodities are easily sold on the black market and the revenue generated is used to fund their movement. The LTTE has been striking oil targets both ashore and at sea – while it had often targeted oil dumps in Trincomalee, in October 2001 five *Sea Tiger* boats carried out a suicide attack on the oil tanker *MT Silk Pride* off northern Sri Lanka.²³

It is also important to note that both principal choke-points of the NSR are also geographically located close to the Golden Crescent (Pakistan, Iran and Afghanistan) and the Golden Triangle (Myanmar, Thailand and Laos) that are ill-famed for drug production and trafficking. The easy generation of money and the availability of arms in Afghanistan and Cambodia leftover from past guerrilla wars leads to the attendant maritime crime of gunrunning. These crimes nourish separatist movements and instability within littoral states and thus impinge upon sea-line security, albeit indirectly.

Human activity does not imperil shipping alone - the recent tsunami on December 26, 2004 cautioned the littorals not to be complacent of the

²² MALSINDO was instituted in July 2004. It is a “coordinated” patrol – not a “joint” one. It provides for communication links among the naval command centers of the three littorals and common radio frequencies to assist merchant ships in distress. But a patrol vessel of one state cannot pursue criminals into the territorial waters of an adjacent state, and this limitation is often exploited by the criminals.

²³ Gal Luft and Anne Korin, “Terrorism Goes to Sea,” *Foreign Affairs*, November/December 2004. Reproduced at the *Institute for Analysis of Global Security* (IAGS), <www.iags.org/fa2004.html> (August 20 2006).

periodic manifestation of nature's fury. The tsunami may have been unprecedented, but cyclones in the Bay of Bengal are as frequent as two to four annually,²⁴ which cause much devastation at sea and in the littoral. Considering that more than 100 oil tankers transit the NSR each day, any maritime disaster could easily lead to an oil spill and seriously degrade the environment.

Current Energy Strategies

The "lifblood" of countries includes trade in all merchandise. However, the assurance of energy inflows is of greater urgency to any net-energy-deficient country due to the grossly uneven global distribution of fossil-fuel reserves that has led to the "widening of arrows" phenomenon, as mentioned earlier. In the case of the Asia-Pacific, the seminal NSR is a result of this phenomenon. In this regard, both China and India have worked out respective strategies.

China's Strategy

China is at a relative advantage in terms of sea-borne trade since more than three-quarters of its trade flows are not geographically constrained by the choke points of Southeast Asia. It is aptly using this advantage in terms of its energy security too – seeking to source much of its LNG imports from Southeast Asia, Australia and Russia (Sakhalin). In the future, some of its oil could also come from Latin America (Venezuela) through the Pacific route via the Panama Canal.

However, most of China's energy inflow will continue through the NSR, with the attendant disadvantage of being located at the end of this principal energy supply route. China's heavy dependence on West Asia in particular is a cause for palpable weariness. The sub-region is not only insecure due to Islamic extremism, but it is also under an overbearing influence of the United States – these two factors could undermine its vital interests in the future. China is thus on the lookout for oil in Africa, in addition to its sources from Central Asia via overland pipelines. In order to secure its energy sea-lines passing through the Indian Ocean, China is in the process of implementing a so-called "string of pearls strategy" that entails building a strategic presence in states that lie along the NSR like Pakistan, Sri Lanka, Bangladesh, Myanmar, Thailand and Cambodia.²⁵ Increasing the "reach" of the Chinese navy and conduct of joint naval exercises with regional and extra-regional navies have also been realized as attendant imperatives. In order to obviate the insecurities connected with the Malacca Straits, it is considering alternative routes,

²⁴ Bay of Bengal Pilot (Sailing Directions), 1978.

²⁵ Bill Gertz, "China Builds Up Strategic Sealanes," *The Washington Times*, January 18 2005, <www.washtimes.com/national/20050117-115550-1929r.htm> (August 20 2006).

including pipelines from Sittwe in Myanmar to the Yunnan province of China and another pipeline/canal across the Isthmus of Kra in southern Thailand to the Gulf of Thailand. These “shunts” would cut down many miles of shipping distance as well.

India's Strategy

Relative to the NSR, India is geographically located nearly midway, in a “commanding” position to monitor the Indian Ocean sea-lines. However, it is rarely noted that India is at a greater disadvantage as compared to China in terms of availability of source-diversification options – it is straddled between the two highly vulnerable choke points.

India is on the path of optimum resource-diversification and is also making efforts to expand domestic exploration and production.²⁶ In addition, politico-diplomatic measures are ongoing to tap the gas reserves of India's immediate and extended neighbors (Bangladesh, Myanmar and Iran). Other than these, India's response towards greater energy security seems to be essentially based on a two-pronged strategy, very similar to that of China's – the first is to reduce dependence on oil imports from the volatile West Asia, for which it is seeking alternatives in regions like Africa and South America. The second response is to diversify its LNG imports to the east to countries like Indonesia, Russia (Sakhalin), Myanmar and Vietnam. In this case however, LNG shipping would have to pass through the vulnerable straits of Southeast Asia.

The above strategies of China and India are essentially centered on “avoidance” – these incorporate either the “eggs-in-the-basket” approach of resource and source diversification or the “shunt” approach to bypass insecure sea-lines. These strategies are being further augmented by the “cushion” approach - both China and India have plans to build or expand commercial and strategic oil reserves. However, these responses do not address the energy transit problem comprehensively, nor do these cater to the increased intensity of energy needs in the long-term. The two countries would have to deal with their insecurities “head-on”, for which the feasibility of cooperative mechanisms would need to be identified.

Exploring Convergence

It was earlier predicted that there would be an intense rivalry between China and India while the two scout for energy sources around the world. However, the two coordinated their biddings for mutual benefit for the same oil and gas assets and have even been working together towards an Asian energy market. Could this momentum be extended to securing the maritime lifelines? *Prima facie*, direct cooperation among maritime

²⁶ Although it must be added that the results in the case of oil have not been too encouraging lately.

security forces of these two countries does not seem to be feasible, since China and India are not maritime neighbors. Nevertheless, a coordinated approach may still be possible.

The Common Denominators & the Way Forward

The instability of the Persian Gulf and the consequent insecurities of the western choke-point of the NSR is as much of a concern to India as it is to China in terms of energy security, but neither can envisage a direct security role in these waters, at least in the foreseeable future. Notwithstanding, both may play an indirect role through their naval interactions with littorals and an occasional naval presence in the area. Considering the possibility of the two navies operating in the same area in future, it would be necessary for them to harmonize their activities by evolving confidence-building measures and maybe even complementing each other.

Notwithstanding China's "string of pearls" strategy, it is not conceivable for the Chinese Navy to maintain a continuous presence, let alone control, the widely flung sea-lines of the NSR. China deploys the world's largest national commercial fleet. Considering the numerous Chinese-flagged vessels plying the route and the criticality of energy inflow through this route, India could be of much help. Geography has bestowed on India a favorable position in the northern Indian Ocean in terms of enabling it to monitor a major stretch of the NSR. Besides, being optimized to address a variety of threats in its extensive Exclusive Economic Zone (EEZ) and the regional maritime neighborhood, Indian maritime forces have adequate reach and sustainability. In addition, the maintenance of "good order at sea" is of much importance to India. This includes responding to all contemporary non-state threats including natural disasters. For example, the "spontaneity" of the Indian Navy in providing tsunami assistance to the affected areas in India as well as in the neighboring littorals simultaneously has been particularly noted in the region.

While the Southeast Asian straits enclose China's principal energy lifelines, India's stakes in these straits lie predominantly around trade interests in the East, which are rapidly gathering momentum. Despite the fact that the primary motivating factors of the two do not coincide, the security of these waterways is equally important to both for their respective economic growth and development.

As in the case of the Persian Gulf, China has been concerned about the overbearing U.S. military influence in the Southeast Asian straits as part of its "war on terror". In April 2004, the U.S. even sought military intervention in the Malacca Straits and launched the Regional Maritime Security Initiative (RMSI), which was also linked to the Proliferation

Security Initiative (PSI).²⁷ In order to counter the proliferation of Weapons of Mass Destruction (WMD), it was important to control the Straits, most of which lies within the territorial waters of Malaysia and Indonesia and which are not PSI-states. Fortunately for China, U.S. operational involvement has been averted for the time being due to RMSI's rejection by Indonesia and Malaysia. Their sensitivities over issues of sovereignty are genuine and the legitimate right of any nation. India is no different – having itself expressed this sentiment on numerous occasions. However, when a state willfully accepts a “cooperative-mode” for countering common non-traditional threats, it does so with a reasonable degree of trust and ought to forego extreme national sentiments.²⁸

The patrolling assets of the littoral states are grossly inadequate as the states themselves admit.²⁹ The current coordinated patrol, MALSINDO has also been inadequate - after a brief lull following the December 2004 tsunami, there has been a spate of violent pirate attacks. Hence, the acceptance of extra-littoral operational involvement in the security of these straits would be the prerequisite to any viable security arrangement. Using the facilities in Andaman and the Nicobar Islands, India has been coordinating its patrols with the Indonesian Navy in the six-degree channel. Indian ships could easily extend their responsibility a little further southwards into the Malacca Straits to assist the littorals. In order to cater to the sensitivities of these states, alternatives could be explored. One of these may be patrolling by extra-littoral naval or coast guard vessels with law-enforcement officials of littorals embarked onboard.

During the ASEAN Regional Forum summit in July 2004, the littoral states informally discussed India's possible security role in the straits with the Indian External Affairs Minister, but this has not yet been followed up with a formal request. The discussions nevertheless indicated that the littorals are more at ease with an Indian, rather than an American role. In view of the current insecurities in this vital waterway, this ought to be acceptable to China too, since the RMSI could become more assertive in the future if security deteriorates further. A major terrorist strike in the Straits or the need to intensify PSI activities could easily fuel a U.S. military presence. China has never voiced its aversion to India's involvement – but it could encourage the Malacca Straits littorals to accept it.

²⁷ C.S. Kuppaswamy, “Straits of Malacca: Security Implications,” *South Asia Analysis Group*, Paper No. 1033, June 18 2004: <www.saag.org/papers11/paper1033.html> (August 20 2006).

²⁸ It is pertinent to note that even the fight against natural disasters, environmental preservation, SARS, HIV/AIDS, etc. are also widely accepted as non-traditional threats and there is a near-universal acquiescence to combat them jointly.

²⁹ Cdr GS Khurana, “Malacca Strait Security: Is Extra-Littoral Naval Response Exigent,” *Indian Defence Review*, Vol. 19(3) (Jul-Sep 04), 21.

Considering the periodic shift of piracy, either westward into the Indian Ocean or into the South China Sea, China and India could coordinate their efforts to combat this menace. The November 2004 Regional Cooperation Agreement on Combating Piracy (ReCAAP) against ships in Asia³⁰ is a significant step in this direction. Such a comprehensive approach would also secure India's energy imports from the East, viz. the Russian Far East (Sakhalin) and Vietnam, which are expected to commence in the next few years.

Following the precedence of the Indian Navy's escort operations for U.S. high-value ships transiting through the Malacca Straits in 2002,³¹ some countries are also contemplating such escorts for their vital shipping through the Straits. It is important to note that such missions through "international straits" are well within the ambit of international law. If insecurities in the Southeast Asian waterways increase a few years from now, India and China could even request each other's help in escorting selected vessels carrying vital commodities; the Indian Navy in the Indian Ocean and Southeast Asian straits and the Chinese Navy in the East and South China Sea.

China and India are important players in global security. Their coherent voice in legal instruments could be useful to combat non-traditional threats comprehensively. For example, the two countries could mobilize a consensus to extend the ReCAAP to all indirect threats to shipping like drug trafficking and gunrunning. In the open seas, these criminals would prefer to avoid sea-lines. However, it is a fortunate opportunity for littoral state's law-enforcement to seize because the criminals are constrained by geography too, and are compelled to traverse through narrow straits that coincide with vital sea-lines.

At close examination, there may be many other convergences between India and China in the domain of maritime security. Indian and Chinese maritime security forces could conduct joint anti-piracy and disaster-relief exercises, probably alternately in the Indian Ocean and the Western Pacific. There is a major forum wherein the regional navies share their views on maritime security issues. India presently attends the meetings as an observer. China could play a useful role towards facilitating its full membership.

³⁰ "Regional Cooperation Agreement On Combating Piracy And Armed Robbery Against Ships In Asia," Singapore Ministry of Foreign Affairs Press Statement, April 28, 2005 at <<http://app.sprinter.gov.sg/data/pr/2005042801.htm>> (August 20 2006).

³¹ Indian Navy Press Release, "Escort Operations by the Indian Navy In the Straits of Malacca," July 16 2002 at <<http://armedforces.nic.in/navy/press.htm>> (August 30 2006).

Conclusions

There have been predictions from many quarters that China and India would emerge as global powers in the decades to come.³² The interaction between the two Asian giants would be a major determinant not only of regional security but would also influence the global environment in a major way. It is thus not surprising that the two states are under close scrutiny by other countries. It was probably for this reason that the October 2003 first-ever joint maritime exercise between the erstwhile military foes was keenly watched in the region.

Pragmatism leads one to acknowledge that *realpolitik* would compel the two into competition for power status, more so since it has hitherto been elusive to the two great civilizations of historic times. In the context of the current geo-political environment, soft power in terms of economic fortitude is among the major components of such status and its attainment would be the vision of Chinese and Indian policy makers. However, the rapid development and growth of economies in China and India have increased their vulnerability to energy-supply disruptions. Confrontational energy security policies would not be in their long-term interest, particularly when the two are immediate neighbors. The two need to synergize their respective strengths which flow out of their maritime capabilities and geo-strategic advantages, rather than allowing the strength of one to have a deleterious effect on that of the other.

³² "Mapping the Global Future," U.S. National Intelligence Council 2020 Project Report, December 2004, <www.dni.gov/nic/NIC_2020_project.html> (August 20 2006).

The Shanghai Cooperation Organization at 5: Achievements and Challenges Ahead[†]

*Zhao Huasheng**

ABSTRACT

Over the past five years, the Shanghai Cooperation Organization successfully withstood the challenge of a rapidly changing international security environment. It also made notable institutional progress, especially in developing a conceptual framework, in cultivating a positive image, in institutional capacity-building, as well as in establishing relations with external parties. Nevertheless, the SCO remains under-developed. Specifically, it is constrained by the lack of resources, economic cooperation between member states remains limited, its international status is only just emerging, and furthermore, interaction at the non-governmental grassroots level remains nondescript. In order for the SCO to mature and consolidate its position in the region, it has to address a series of problems - it needs to improve its developmental framework, determine the scope of its function, address economic and security issues, respond to the challenges of geopolitics and regional stability, further cultivate and improve relations with the outside world, as well as clarify the question of enlargement.

Keywords • The Shanghai Cooperation Organization • achievements • weaknesses • prospects • SCO Secretariat • SCO development problems • SCO enlargement • SCO external relations

Achievements Over the Past Five Years

The Shanghai Cooperation Organization was established on June 15, 2001 and recently celebrated its fifth year anniversary. While the SCO has made great progress on a number of important issues over the past five years, there are many questions which have yet to be addressed. This paper provides an assessment of the major achievements of the SCO, as well as the problems it faces. It will then discuss the developmental prospects of the organization.

The SCO's biggest achievement to date is its success in creating a stable institutional foundation despite the challenges brought about by

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the rapid and sudden changes in the international security environment. This indicates the resilience of the organization. To put things into context, the organization was set up just three months before the 9/11 incident in the United States which shocked the world in 2001 and changed the international security landscape dramatically. The Americans responded by attacking the Taliban regime and Al Qaeda in Afghanistan. The United States' operation in Afghanistan resulted in it gaining greater influence in neighboring Central Asia, as Uzbekistan and Kyrgyzstan allowed the United States to set up military bases in their countries to support operations in Afghanistan. U.S.-Russian relations also improved during this period as Russia initially supported the Americans in the fight against terrorism. These factors deeply affected the internal and external operating environment of the SCO. At its formation, the SCO was designed to work under a completely different geopolitical situation. The SCO and the member countries were caught unprepared by the advent of 9/11 and the subsequent drastic changes that followed.

The post 9/11 environment brought about a series of questions and challenges to the SCO: First, are the principles and views put forward by the SCO still relevant? Second, the sudden presence of the U.S. in Central Asia brought about the sense that the Americans have become one of the security stakeholders of the region. This led to questions as to whether the SCO would be marginalized on security issues as a result. Third, following the established ties between the U.S. and the various Central Asian states, would the Central Asian states still need the SCO? Fourth, relations between the U.S. and Russia improved considerably after 9/11. It was thought that Russia's strengthening relationship might have a negative impact on the SCO since its renewed ties with the United States could lead Russia to lose interest in regarding China as its key security partner. Fifth, the 9/11 incident and the U.S. military attack on the Taliban and against the Al Qaeda network completely caught the SCO flat-footed. The inaction witnessed despite the organization's declared anti-terror objectives led to doubts as to the actual capabilities of the SCO. This brought about questions of whether the nascent SCO could maintain enough momentum to operate in such a fragile region, sustain its members' interest, and develop its regional potential as it has hoped. Some pessimists went as far as to claim that the SCO had disintegrated following the 9/11 incident.¹ With hindsight, we now know that the skeptics were wrong. Not only did the SCO withstand the

¹ С.Кортунов. Росийско-американское партнерство и вызовы 21 века. «международная жизнь» 2002.4. с.69. S. Kortunov. Rossiisko-amerikanskoe partnerstvo i vyzovy 21 veka [Russian-U.S. partnership and challenges of the 21st century], *International Life* (April 2002): 69.

sudden changes in its operating environment, it managed to accelerate its developmental plans, pushing aside all talk of its irrelevance.

During its first five years, the SCO also had to deal with the advent of “color revolutions” within the post-Soviet space. Beginning with Georgia in 2003, the “color revolutions” spread to Central Asia in 2005 by which time their form and nature had changed. In March 2005, Kyrgyzstan experienced the “Tulip Revolution” but by May of the same year, what was witnessed in Uzbekistan during the Andijan incident was not a revolution but could better be described as social unrest. The “color revolutions” did not pose as significant a problem compared to 9/11.

The progress of the SCO underscores five points. First, it indicates that its basic principles and outlook are in accordance with the reality faced by Central Asia. Second, America’s engagement with Central Asia cannot replace the SCO’s function. Third, as a regional organization, the SCO indeed caters to the needs of the individual member states. Fourth, Russia’s changing relations with the U.S. did not undermine Russia’s commitment to the SCO. In fact, as U.S.-Russian rivalry accelerates in Central Asia, Russia has accorded more importance to the SCO to counter America’s growing influence in the region. Fifth, the SCO has the necessary ability and potential to develop as a regional organization.

Another important success of the SCO over the past five years is its success in promoting a positive image on the international stage. The SCO is based on the “Shanghai Spirit,” which is a new security concept, a new model of inter-state relations and regional cooperation. It is based on the principles of non-alignment, openness to the rest of the world, mutual trust and benefits, equality, consultation, respect for diversified civilizations and mutual development.² As the organization’s charter also notes, the SCO is not aimed at any other country or international organizations.³ However, the establishment of the SCO attracted criticisms and mistrust, due to the ambiguity of its international status. Within the international community, the SCO tends to be perceived as a traditional organization governed by *realpolitik*. The West in particular regards the organization as a Sino-Russian led alliance that seeks to

² Declaration on the Establishment of the Shanghai Cooperation Organization. <www.sectsco.org/html/00088.html> (August 15 2006).

³ Shanghai Cooperation Organization Charter, Article 2. <www.sectsco.org/html/00096.html> (August 15 2006).

compete against and curb the influence of the U.S. and NATO.⁴ Some Russians scholars feel the same way too.⁵

Such a perception is derived from the fact that the SCO, as well as its predecessor, the “Shanghai Five,” were both established at a time when Sino-Russian relations were peaking while the United States’ relations with these two countries were at a dismal low. When the Shanghai Five was set up in 1996, China’s relationship with Russia was entering into what could be described as a “honeymoon period” whereby both parties regarded each other as a strategic partner. In contrast, Sino-U.S. relations continued to remain frosty during this period as a result of the 1989 Tiananmen incident, while Russia, which considered the U.S. as a strategic partner three years earlier, had begun to drift away from the U.S., leading to what could perhaps be described as a “Cold Peace”.

When the SCO was established in 2001, the United State’s relations with both China and Russia suffered another critical downturn due to a series of grave incidents. In 1999, America bombed the Chinese embassy in Yugoslavia causing relations between the two countries to nose-dive. Relations between the two reached a new low in April 2001 when America’s EP-3 spy plane collided mid-air with a Chinese fighter jet during which the Chinese pilot lost his life. As for relations between the U.S. and Russia, relations similarly reached a freezing point as a result of the U.S. led war by NATO against Yugoslavia over Kosovo which went ahead despite strong protests by Russia. It was also around this time when NATO underwent its first phase of expansion to include former Warsaw Pact member states. In addition, America’s threat to quit the Anti-Ballistic Missile treaty signed in 1972 by both parties caused bilateral relations to further deteriorate. The fact that the SCO was founded at such a pivotal period therefore gave the impression that its formation was a collective anti-American response by both China and Russia. Furthermore, the SCO’s emphasis on regional and global multilateralism did not sit well with America’s determination to remain as the paramount global power, leading to the impression that the organization was anti-American.⁶

On July 5, 2005, the SCO caused more consternation in the West as a result of the joint statement released following its summit meeting in

⁴ Chairperson of the Carnegie Endowment for International Peace, Jessica T. Mathews propounds a similar line of thought; that one of the objectives of the SCO is to resist the eastern expansion of NATO. See Jessica T. Mathews, “September 11, One Year Later: A World of Change,” *Carnegie Endowment for International Peace*, Policy Brief. Special Edition 18, 5 (August 2002).

⁵ For instance, political scientist Andronik Migranian said SCO could turn into a military alliance to supplant the U.S and NATO. See *Interfax* (Moscow), October 26 2005.

⁶ For instance, the objectives of the SCO differ fundamentally from those of the US: advocating multilateralism, promoting a global order based on justice and reasonableness, respecting sovereignty of nations, adherence to non-interference and non-violence.

Astana, Kazakhstan whereby the U.S. was asked to provide a deadline for withdrawal from the military facilities they were using in Kyrgyzstan and Uzbekistan.⁷ This statement further re-enforced the distrust the United States has towards the SCO, and contributed to the impression that the SCO is in the process of creating a NATO-type military alliance against the West.⁸

However, the joint statement released at the Astana Summit should not be perceived as a shift in the SCO's attitude towards the West. This is because Russia and China's attitude towards American bases in Central Asia has always been consistent - that U.S. military bases in Central Asia are temporary and that they should be withdrawn when operations in Afghanistan wind down. American officials have themselves also stated repeatedly that the U.S. does not have any intention to maintain a military presence in Central Asia in the long-term. Thus, the statement released following the Astana summit was only intended to serve as a repeat of their long-standing position and a reminder to the U.S. of their promise. In reality, a more important factor is the change of attitudes by the Central Asian states towards the United States, especially in the case of Uzbekistan after the Andijan incident, where it was criticized by the U.S. for human rights abuses. As a result, the Uzbek regime which hosts U.S. military bases no longer welcomed America's presence in Uzbekistan.

In other words, it would perhaps be better to say that the U.S. ran into problems with the Central Asian states, not with the SCO per say. Besides, the Secretary-General of the SCO Zhao Deguang has already stated that the SCO is not, and will not turn into an "Eastern NATO".⁹ The SCO is also not an anti-American organization. Such an impression is counterproductive to the image of the SCO. It is also inconsistent with the spirit and principle of the SCO, as well as the intention of the individual member states. This is especially so with the smaller members of the SCO, namely, the Central Asia states themselves, who do not wish to see the SCO "politicized" and end up being in an anti-American bloc.

Over the past five years, the international image of the SCO has in fact been evolving. To begin with, the SCO has sought to focus on cooperation on "non-politicized" tasks such as joint economic, anti-narcotic, contagious diseases, and natural disaster management. Furthermore, the SCO has stressed a constructive and open approach on political issues. The 2005 Tashkent declaration by the SCO Head of

⁷ Declaration of Head of Member States of SCO, Astana, July 5 2005. <www.chinadaily.com.cn/china/2006-06/12/content_614632.htm> (August 15 2006).

⁸ "Russia, China looking to form 'NATO of the East'?" *Christian Science Monitor*, October 26 2005, <www.csmonitor.com/2005/1026/p04s01-woeu.html> (August 15 2006).

⁹ In response to accusations that the SCO actually is a "NATO of the East", Secretariat Zhang Deguang declared categorically that SCO will never become a political or military alliance. <<http://news.sohu.com/20060116/n241464321.shtml>> (August 15 2006).

Member States stressed the “principles of equal partnership, mutual respect, mutual trust and openness.” Furthermore, “responses to the complex challenges of our time - be they international terrorism or regional conflicts and crises - can and have to be found on a multilateral and cooperative basis.”¹⁰ There are a lot of points worth noting from this summit declaration, in particular that the SCO is not a “bloc organization” [*sic*], as well as the increased emphasis on multilateral cooperation.¹¹

One of the important accomplishments of the SCO in the past five years has been building institutions that facilitate multi-facet and multi-level cooperation amongst member states. Such institutions within the SCO help to maintain its basic operations. The structure of the SCO consists of the following: permanent institutions and permanent mechanisms to facilitate dialogue and meetings. When the SCO was set up, it planned to set up two permanent institutions. The first was the appointment of a Secretariat and the other was the creation of an anti-terrorism arm. The Secretariat is in charge of matters related to budgeting, personnel, institutional functions, operating procedures, to name a few. Its creation turned out to be more complicated than expected and the entire process of setting up a SCO Secretariat took two-and-a-half years and was only completed in January 2005. The Regional Anti-Terrorist Structure (RATS) took an even longer time to set up. This idea was initiated at the time of the Shanghai Five and was only finally established in June 2005. The creation of a Secretariat and its anti-terrorism arm, RATS, in 2005 represent two steps forward in the organization and institutional development of the SCO and heralds the basic completion of SCO's institutional development. SCO is now a functionally, organizationally complete grouping.

SCO has an internal mechanism which organizes regular meetings for member states. Such a mechanism constitutes an integral part of discussions and policy-making within the SCO. According to the Charter of the SCO, the meetings of the following levels of government would be organized: Heads of State, Heads of Government, Council of Ministers of Foreign Affairs, the Conference of Heads of Agencies and Council of National Coordinators. In the five year history of the SCO, these meetings were successfully conducted and uninterrupted, even in the most difficult circumstances.

Not counting the 2006 summit in Shanghai, the SCO has carried out five heads of state summit meetings and four Prime ministers meetings since 2001. The Council of National Coordinators meetings were held 15

¹⁰ Tashkent Declaration of Heads of Member States of Shanghai Cooperation Organisation at <www.sectSCO.org/news_detail.asp?id=119&LanguageID=2> (August 15 2006).

¹¹ *Ibid.*

times, while the foreign ministers have met both formally and informally more than 9 times. In addition, the SCO is in the process of creating mechanisms for the member states' various ministries, ranging from defense, culture, transport and communications, to meet under its auspices.

Finally, the SCO has over the past five years reached a degree of consensus in the fields of politics, economics, inter-state relations as well as external relations. This is an important achievement for the SCO. The roots of the SCO began with the Shanghai Five and there is a strong continuity from its Shanghai Five days. However, it should be noted that the SCO is different compared to its predecessor in terms of its focus, character, and both internal and external operating environment.

After all, the Shanghai Five's main focus was on solving boundary problems by facilitating dialogue amongst countries. With such a narrow objective, the internal and external pressures and expectations faced are far less than what the SCO has to undergo. The SCO's starting point is different. It is not a forum but a regional organization that has to conceptualize a wider and more concrete regional goal based on long-term planning. It also has to set up a practical process for which to realistically attain these goals. To date, the SCO has made much progress in terms of politics, economics, improving inter-state relations, and in its external relations. This can be seen in the numerous agreements and documents produced by and with the SCO. They form the conceptual basis and legal foundation with which SCO operates and develops.

The SCO's Weaknesses

While the SCO can be characterized as being successful, having achieved much over a period of five years, there are nonetheless deficiencies and weaknesses that have yet to be addressed. A major problem encountered during the development process of the SCO is that while its member states have made many demands to the SCO, there are insufficient resources available to address the various needs. Furthermore, the effectiveness and credibility of any international organization is to a large extent dependent on the member states' willingness to entrust power and authority to the organization. The SCO is not an alliance, nor is it a supranational organization. In addition, member states' domestic and external policies are diverse. Thus, there has been little basis to cede authority to the SCO. This is a structural problem whereby there is little avenue for the SCO to implement and enforce collective decisions according to its members' will. In addition, the member states of the SCO are all rather poor economically, especially the Central Asian member states. China and Russia, while relatively better-off compared to their fellow members, also have limited financial and economic resources.

This situation means that the SCO has to operate within the limits of a tight budget and is a real hindrance to the growth of the SCO.

Another major problem is that while the SCO has made progress in its conceptual framework, the process of reaching a practical agreement with regards to the enforcement and implementation remains slow. Thus, the actual benefits derived from the SCO have been lower than expected. The SCO has already identified 127 areas for cooperation but due to disagreements over how to implement them, most remain as documents at the proposal stage. As a result, the benefits derived by the signatories remain less than initially anticipated and this has reduced the credibility of the SCO. A Russian scholar has pointed out that, especially in the economic field, there is a gulf between rhetoric and reality. While there are numerous proclamations of agreements under the auspices of the SCO, their practical implementation remains limited. This, according to him is the biggest problem facing the SCO.¹² This phenomenon is partly due to the high expectations of the SCO. On the other hand, it shows that the SCO's potential has not been fully realized, especially in the field of economic cooperation.

As a regional organization, the SCO's international status remains low and its influence weak after five years in operation. It has yet to become an active participant in international politics, or received recognition as an influential player in the world stage. In the Central Asian context, the SCO's influence in the field of security and general affairs also remains weak. Having said that, the SCO is without doubt already an important player in the region and can even be said to be the most representative organization of the region. However, the SCO still lacks the capability to resolve all of the serious security challenges facing the region. This limitation must be put into context. The SCO has only been in existence for five years. Compared to Association of Southeast Asian Studies (ASEAN) which has been in operation for nearly 40 years and the European Union (EU) which has nearly a 50 year history starting with the European Economic Community in 1958, the regional and international standing and influence of the SCO is understandably limited. However, the international environment is no longer the same as it was decades ago; the regional environment the SCO occupies differs from that of the ASEAN and the EU. Besides, given the fast pace in which the international security environment is developing, new organizations like the SCO have to mature rapidly in order to remain

¹² А.Лукин, А.Мочульский. Аналитические записки. Шанхайская организация сотрудничества: структурное оформление и перспективы развития. 2005.2. Выпуск 2 (4). с. 11. A. Lukin, A. Mochul'sky. Analiticheskie zapiski. Shanghaskaya organizaciya sotrudnichestva: Strukturnoe oformlenie i perspektivy razvitiya [Analytical notes. Shanghai Cooperation Organization: Structural frame and development prospects], 2, 4 (February 2005): 11.

relevant and does not have the luxury of developing at a slow and gradual pace. The problem facing the SCO thus is how and in which areas it could advance in order to remain relevant in a rapidly changing political environment.

There are also questions as to the type of regional organization the SCO would develop into in the future. The SCO already has a clear conceptual framework as expressed through its principles, purpose and the "Shanghai Spirit". However the practical questions as to how and in which areas it could advance its cause is not as clear. In reality, as a regional organization set up in a nascent region, much uncertainty remains and these questions can only be addressed on a gradual basis. There are two useful regional models which the SCO could perhaps examine. The first is the European Union model, the other is the ASEAN model. The uniqueness of the EU model lies in the fact that it is built on uniformity and harmonization in terms of common values, integrated economies, a cohesive foreign policy strategy, and political integration among member states. Power is substantially ceded from the member states to the EU. There are also attempts at making it a supranational organization.

ASEAN's function is, on the other hand, based on diversity and the autonomy of individual member states, whereby member states differ in terms of political values, governance philosophy, varied economic systems, and a coordinated diplomatic mechanism that does not impede on the foreign policy of individual member states. While there are plans to form an ASEAN security community, the national sovereignty of the individual member states remains largely intact. Thus, the EU and ASEAN represent two different models for regional cooperation, because of their own distinct political, economical, historical, cultural, and regional conditions. Overall, the ASEAN model appears to be more suitable with regards to the SCO's operating environment and there are certainly lessons to be learnt from the ASEAN experience. Nevertheless, the SCO, because of its own distinctive set of challenges would have to develop its own development path.

Another weakness of the SCO is the lack of socialization among the member states' population. The SCO has largely been organized and led by the political elite of the various member states. There is a lack of identification among the masses with the SCO, and needless to say, the SCO has not created a sense of community at the regional grassroots level. The lack of affinity is not the SCO's fault, but rather a result of the existing disconnectedness between Central Asian states, as well as within and among China and Russia. The lack of greater social interaction among the population of the SCO member states is bound to have an impact on the SCO's development since it means that policies implemented and activities organized by the SCO is likely to lack

popular support. This will become a major challenge for the SCO in times to come as it raises questions concerning its legitimacy at the basic level among the populace.

Finally, there are questions concerning the two operational arms of the SCO, namely the Secretariat and RATS. These two are important because they represent the relevance and purpose of the SCO and embody the multilateral cooperation principles of the SCO member states at a practical level. The implementation of such institutionalized multilateral cooperation mechanisms is something new to the SCO and will take time before such mechanisms and processes are honed. However, the SCO has to adapt to the rapidly changing environment both within Central Asia and internationally, so time is of essence. A challenge faced by the SCO is how it could speed up the process to quickly make these two offices operate efficiently and effectively.

Developmental Problems Facing the SCO

The SCO having been around for just five years is still a young organization and with this fact comes two associated problems. First, because it has yet to mature, it remains unable to operate at its fullest potential. Second, as a nascent organization, the SCO is still relatively weak. Therefore, its long term success cannot be taken for granted. Both problems indicate one point - that its future make-up and survivability is dependent on its current developmental trajectory.

The SCO's Development Model

A major concern the SCO would have to deal with is whether the development model adopted by the organization would enable it to constantly grow and mature. At a basic level, the development of the SCO is dependent on the political and economic wills of all the member states, including their foreign policy outlooks, each of which is different. Thus, the SCO is regarded as a vehicle to promote common interests without interfering in the individual states' foreign policies. The SCO has many unique characteristics which makes it different from other regional cooperation organizations. The disparities in terms of population and geographical size are very significant among member states. In particular, both China and Russia have huge populations and territories compared to the Central Asian member states. Every country also has a different profile in terms of politics, society, religion, culture, not to mention the different pace of economic growth.

The SCO has its roots in resolving boundary issues at the time of the Shanghai Five. The organization treats security and economic issues as intertwined and has a concept of security that is different from the traditional approach. The SCO is situated in an exceptional region, set up

under exceptional circumstances and faces a special situation. Accordingly, it will have to come up with unique solutions for the benefit of its member states. Being formed after the Cold War, it has a different set of priorities and outlook and this is reflected in its special set of guiding principles and the “Shanghai Spirit”. Having been formed for cooperation among themselves instead of being against any other state or group of states, it does not have a “Cold War” mentality. In sum, the SCO has to strike its own developmental route according to the local conditions.

There are numerous regional cooperation models in the world, each of which is different. They range from loose cooperative structures such as forums, to integrated structures among participating states. The SCO is somewhere in-between the two extremes. It is neither a forum nor an alliance. Due to the diversity and disparity in the economies, internal politics, and foreign policies between the member states, this format works best in ensuring the survival and development of the organization.

Thus far, the SCO has primarily engaged in the following areas of cooperation: political, security, economic, and cultural. It could, according to practical needs and possibilities, tighten its cooperation in certain areas, whilst loosening in others. The extent of cooperation within the SCO is rather fluid and depends on the development of the SCO itself. Over time, it ought to gradually increase the level of multilateral cooperation.

Determining the Scope of the SCO's Functions

The SCO also faces the important task of determining the scope of its activities. This is crucial to the future development of the organization. If the parameters are too narrow, the organization will not be able to manifest the strength and potential it deserves, which will decrease the confidence of member nations, thus affecting its stature and image. If the parameters are too wide, exceeding the organization's actual strength and resources, surpassing the aims and targets member nations are willing and able to accept, the results will be counter-productive.

Therefore, setting appropriate parameters is not merely a technical problem for the organization, but a political issue determining its successful development. Different scholars have varying opinions on the scope of cooperation. With regards to anti-terrorist and economic cooperation, each country's scholars are motivated by national self-interest, and the perspective of their own country. Thus, they tend to treat the SCO via a prism of narrow self-interest as a means of solving their own country's concerns and problems. Generally speaking, China and Russia hope that the additional scope of the SCO would include formulating geopolitical relations with other great powers. Central Asian countries are on the other hand keen to use it to solve internal security

and economic problems.¹³ Ultimately, the SCO's future direction should be determined according to the "Shanghai Spirit", the members' will and the availability of resources to the organization. Growth should be organic rather than contrived, based on the political environment and direction of the region.

Facing Changes in the Political Environment

While China and Russia are often perceived to be the primary movers of the SCO, the SCO's political heart lies in Central Asia, since the participation of Central Asian states are of utmost importance for the organization's success. Thus, the organization will have to face up to any political changes which might occur within the region. The Central Asian republics have been independent since 1991. In times to come, it is inevitable that these states will witness changes in political leadership. These Central Asian republics tend to have a high centralization of state power in the hands of the President as a basis for the political stability of the state. However, there are currently no reliable systems and mechanisms in place to ensure a stable transition between the political leaderships and there have been concerns about the outbreak of power struggles among the elites which may lead to unrest during the power transition period. The older generation political leaders of the Central Asian republics are also founding members of the SCO and have developed strong personal ties with the organization. A change in leadership in these states in the future would most likely represent a new generation of political leaders assuming power. This could bring about adjustments in their domestic and diplomatic policies. Such changes would affect their attitude towards the SCO as well. The question of leadership succession, especially in Central Asia is something that the SCO is very concerned with and has to face up to.¹⁴

¹³ For example, Farkhod Tolipov, a scholar from Uzbekistan, summarizes four possible development routes for the SCO as follows: first, a view that is popular within Russian political circles, that the SCO could become an anti-Western and anti-NATO alliance. Second, the membership and functions of the SCO could become more generalized, with less of a regional focus. Third, the SCO could become a means to maintain the balance of power in Central Asia, particularly between China and Russia. Fourth, SCO could promote regional integration. Tolipov thinks that of the four, the fourth route is most suitable for the needs and interests of the SCO. Farkhod Tolipov, "On the Role of the Central Asian Cooperation Organization within the SCO," *Central Asia and Caucasus 3* (2004).

¹⁴ A Russian observer suggests that leadership changes in the members states would eventually lead to the weakening of the SCO. А.Лукин, А.Мочульский. Аналитические записки. Шанхайская организация сотрудничества: структурное оформление и перспективы развития., А. Lukin, А. Mochul'sky. Analiticheskie zapiski. Shanhaskaya organizaciya sotrudnichestva: Strukturnoe oformlenie i perspektivy razvitiya [Analytical

Questions on Security and Economic Priorities

The question of whether to prioritize security or economic cooperation is an important point that the SCO has to decide. Before 9/11, the emphasis of the SCO was on security cooperation. Following the collapse of the Taliban regime in Afghanistan, the security situation in and around the region has improved and this has led to growing calls for more effort in economic cooperation.¹⁵

There are two opposing views on this issue. One camp feels that SCO should continue to focus on security issues. For instance, the SCO should continue to focus its efforts on security issues, not turn its attention on economic issues at a time when there is international disappointment in the manner with which the U.S. has conducted its anti-terrorist operations.¹⁶ The other camp feels that the SCO should focus on economic cooperation as a basis for development.¹⁷ It has argued that if the SCO is unable to bring economic benefits to the Central Asian member states, it is likely that they will focus their attention elsewhere, away from the SCO, leading to the weakening and irrelevance of the organization.¹⁸

Security and economic cooperation are of equal importance and the two actually complement each other. However, security-based organizations have a life span and are usually victims of their own success. They tend to lose their relevance when the threat is removed. Economic cooperation on the other hand is infinite in potential; success in this area leads to the expansion of the region's economy which would warrant further cooperation in this field as a means to facilitate future growth. Besides, as the security situation in Central Asia improves, there

notes. Shanghai Cooperation Organization: Structural frame and development prospects;" p.12.

¹⁵ R.M. Alimov points out the following: "Due to the reduced threat from Afghanistan, Central Asian republics now view the SCO as a means of obtaining financial resources, strengthening internal economies and solving specific social problems". Р.М.Алимов. Центральная Азия: Общность интересов. Издательско-полиграфическая акционерная компания «Шарк». Ташкент. 2005. с.110. R.M. Alimov. Tsentral'naya Aziya: Obschnost' interesov [Central Asia: Similar interests] Central Asia: Similar interests (Tashkent: Shark, 2005), 110.

¹⁶ К.Константин. ШОС как альтернатива Американскому влиянию. Независимая газета. 29 сентябрь 2003 г. K.Konstantin. ShOS kak al'ternativa Amerikanskomu vliyaniu [SCO as an alternative to U.S. influence]. *Nezavisimaya Gazeta*, September 29 2003.

¹⁷ R.M. Alimov, Director, Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan, strongly supports the view that the core of the security issues is economic, and that solving economic problems is the best solution to regional terrorism. Quoted from author's conversation with Alimov on July 5 2005.

¹⁸ ШОС может быть расширена в скором будущем. Интервью с Валерием Салыгином. Итар-Тасс. 12 февраль 2004 г. ShOS mozhet byt' rasshirena v skorom buduschem. Interviyu s Valeriem Saltyginom [SCO might widen in the near future. Interview with Valry Saltygin], *Itar-Tass*, February 12 2004.

would naturally be calls for closer economic cooperation and the SCO is well-positioned to facilitate such demands. Thus, economic cooperation is something that the SCO could capitalize on as a basis for its long term development and survival.

Enlargement of the SCO

The question of enlargement is something that the SCO would have to address sooner or later. At this point in time, the SCO is not ready for enlargement. It is something the SCO does not consider to be an urgent matter on its agenda. It does not even have legal documentation by which to admit new members. In the short-term, the likelihood of new members being admitted into the SCO is low. In June 2004, the SCO passed a motion on the "Regulations on Observers of the Shanghai Cooperation Organization" It went on to accept Mongolia as an observer in the same year, followed by India, Pakistan and Iran in 2005. However, one should not assume that observer status automatically translate into eventual membership.

Nevertheless, enlargement is an issue that the SCO will inevitably have to face up to. This is because the SCO has already stated that it is an organization that is open to other countries. Second, the SCO at a certain stage of its development would have to enlarge as a basis for progress. Besides, if other countries meet the criteria to join the SCO, the organization cannot overlook their request for too long. Furthermore, if the SCO successfully develops and brings benefits to its members, the likelihood of other countries wanting to join will increase.

SCO's enlargement does not only mean a change in membership number. It would also bring about changes in some aspects of the organization. While enlargement may be a basis to strengthen the organization, it could also lead to the weakening of the organization. Thus, the question of enlargement is not a technical one but a political one. The organization would have to examine the possible effects of enlargement before proceeding to do so. The future enlargement of the SCO is most likely to be geographically determined, with states surrounding the Central Asian region having the main priority. States surrounding Central Asia refer to Mongolia, Turkmenistan, Iran, Afghanistan, Pakistan, and India, as well as those in the neighboring Caucasus region. To become members, states would have to adhere to the SCO's founding aims and principles, agree to the SCO's theme of cooperation, and be accepted by all SCO members.

The SCO and Central Asia's Regional Stability

The stability of the Central Asian region is a new issue for the SCO. The basic goal of the SCO has been anti-terrorism and border settlements; it does not interfere in the internal politics of the Central Asian states.

Nevertheless, the Central Asian region may be destabilized as a result of other causes such as in the case of the Andijan event, and such developments would have a negative impact on the organization. A problem arises as to how the SCO would have to respond under such circumstances. For example, the SCO would be facing some difficult choices if the region faces instability as a result of internal disputes or domestic political unrest, or if the region faces instability as a result of non-terrorist threats. If the SCO does not engage in these problems, the outcome may be one that would undermine the organization. However, if it does involve itself with such issues, it may undermine its basic principle and bring about a different set of political risks which would threaten the basis of the organization.

These are two difficult choices, which in fact the SCO is already facing and will likely face again in the future. To give a concrete example, the appearance of “color revolutions” in Central Asia raised two important issues for the SCO: First, the United States is perceived to be behind the color revolutions as a way to install pro-U.S. regimes. A pro-U.S. regime in Central Asia would very likely distance itself from the SCO. Thus, such a development would not only disrupt the cohesiveness among SCO member states, it would undermine the SCO’s development as a regional organization. Second, the appearance of “color revolutions” has raised a dilemma for the SCO. In the event of political unrest, should the SCO regard this as an internal matter and stay out of the situation or should it intervene? Inaction by the SCO would mean that it lacks credibility in ensuring stability of the region. On the other hand, intervention contravenes the “Shanghai Spirit” of non-interference in the domestic affairs of member states, not to mention that it would complicate the relations between SCO and its member states since intervention could lead to the organization’s entanglement with the internal political and social disputes of its members. While the “color revolutions” passed without much negative impact for the SCO, the implications that challenged SCO cannot be ignored.

Thus, the SCO would have to expand its concept of security. From a basic point of view, the internal stability of the Central Asian states would affect the SCO and thus, it is an issue the SCO is concerned about. It will be necessary to enlarge the concept of security to include regional security and stability in addition to anti-terrorism and border disputes. This implies that the SCO should have the responsibility of ensuring Central Asia’s security and stable development. If the SCO is unable to assume such responsibility, its function and effectiveness as a regional organization will come under question. It goes without saying that in order to assume such an expanded role, the SCO will need to establish clear principles that is based on consensus in consultation with its members. If there are disputes between two member states, the SCO

could act as a mediator. If there is a domestic problem which is significant enough to destabilize the entire region, or if there are external forces interfering, or if the problem has already been internationalized and the international community has agreed to intervene in accordance with certain international principles and norms, the SCO may consider intervention in the form of mediation, reconciliation, prevention of large-scale military clashes, and urgent economic assistance, to name a few. At the same time, it should stick to the basic principle of not undermining state sovereignty.

The SCO's External Relations – The CSTO, EAEC and the United States

Beginning in 2005, the SCO began dialogue and cooperation with other states and international organizations. At the June 2005 Tashkent Summit, the organization passed the motion “Regulations on the Status of Observers to the SCO” which serves as a practical base towards external cooperation. Earlier in April 2005, the SCO Secretariat signed a Memorandum of Understanding with both the Commonwealth of Independent States (CIS) and ASEAN thus reflecting group’s positive attitude towards the developing of relations with other regional organizations. However, what the organization needs most is to affirm relations with three parties: The first is with the Collective Security Treaty Organization (CSTO), the second is with the Eurasian Economic Community (EAEC) and the third is with the United States. Relations with these three are crucial but at the same time the most challenging for the SCO. This is especially so when it comes to establishing relations with the United States.

The CSTO and EAEC, which operate under the framework of the Commonwealth of Independent States (CIS), have been described as a “relative” of the SCO because a large number of its members are also members of the SCO. In addition, it is set up by Russia, which is a key member. It is also because of such linkages that strained relations among the SCO, CSTO and EAEC will lead to rivalries, deplete the internal resources of both organization and undermine their effectiveness. The three should in fact work closer together in partnership since it would be illogical for the SCO not to work with another closely-linked organization. For the CSTO and EAEC, cooperation with the SCO is also beneficial for strengthening their position and cooperation initiatives are in fact already underway. In January, 2005, the anti-terrorism arms of both SCO and the CSTO met to consult each other on their lists of terrorist organizations. In May 2006, SCO and the EAEC signed the Memorandum of Understanding for Cooperation. What is more important here is to develop mutual understanding and cooperation at a political level so as to facilitate strategic cooperation.

The SCO should establish dialogue with the CSTO and EAEC to discuss the basis of a long term partnership and to create a basic foundation for close cooperation. As for cooperation between the SCO and CSTO in particular, anti-terrorism may be a platform for closer cooperation between the two organizations. Both organizations have anti-terrorism as an objective. The SCO has the advantage of being a platform for cooperation between member states, but it also has the weakness of lacking a military rapid reaction force. This weakness has been noted by a Russian scholar who feels that the SCO should establish its own rapid reaction force in the near future so as to assume the responsibility of maintaining the overall security of Central Asia.¹⁹ However, such a proposal is hard to realize at the moment. The function of RATS is primarily to collect and analyze information related to terrorism, not military action. Furthermore, it lacks a military wing under it to initiate any action. In this respect, the CSTO is more effective since it has its own joint military strength and rapid military force. The 9/11 attack has shown us that at this age of large-scale and dramatic terrorists threats, the lack of material methods, especially military capabilities, restricts the effectiveness of one's response.

Terrorist ideologies these days are transnational and are not confined to the national boundaries, particularly in Central Asia. Anti-terrorism responses on the other hand are restricted by boundaries, and whenever terrorists strike, the members of the SCO can only respond within the confines of their own respective territories. This is a severe restriction that limits the effectiveness of anti-terrorist measures. Though the CSTO already has a standing military, China and Uzbekistan²⁰ are not members of this organization. Furthermore, the CSTO's anti-terrorist military force is not sufficient to cover the entire region. This is where the SCO can cooperate with the CSTO. The two organizations complement each other, and by integrating resources this partnership could result in synergies for both parties. To be clear, this does not imply a joint military force between the SCO and the CSTO though such an arrangement cannot be ruled out in the future. A more practical step is to establish joint military cooperative mechanisms and for member states of both organizations to commit more resources towards inter-organization

¹⁹ The SCO's regional security officer (卡瑟莫夫) remarks that the strengths of the CSTO's anti-terrorism centre lie in its abilities to coordinate anti-terror operations and train anti-terror personnel. The strengths of the SCO's anti-terror unit are as follows: experience with anti-religious fundamentalism and local knowledge. The two organisations are thus highly complementary. Независимая газета. Бедность как основа терроризма. 07 февраля 2005 г. *Bednost' kak osnova terrorizma* [Poverty as the basis for terrorism], *Nezavisimaya Gazeta*, February 7 2005.

²⁰ [Editor's note: Uzbekistan became a full-fledged member of CSTO in August 2006.]

coordination to deal with large-scale terrorist attacks. This approach could serve as a basis for a true SCO-CSTO partnership.

Relations with the United States are the most sensitive as well as the most difficult for the SCO. The SCO has thus far been ambiguous towards its relations with the United States. This is because developing relations with the U.S. is not the most pressing issue which the SCO has to address at the moment. On the other hand, it reflects the fact that the SCO has not formulated a collective response and definite attitude on this subject. America's presence in Central Asia has an important influence in the region. As the SCO develops and strengthens, the United States will pay more attention to the organization and its attitude towards the region will also evolve. The SCO-U.S. relationship largely depends on America's rapport with both China and Russia in the context of great power relations (as well as with the various Central Asian States). Thus, good relations between Washington and Moscow and Beijing would be a requisite for improved SCO-U.S. relations.

At the moment, the biggest problem plaguing U.S. relations with Russia and China is the lack of mutual trust and understanding in the strategic arena. America's interaction with Russia and China in the Central Asian region is particularly complex. While there is potential for further cooperation in the sphere of non-traditional security such as in counter-terrorism and counter-narcotics, this has been curbed by the lack of trust between the U.S. on the one side and Russia-China on the other. Both sides think that the other is trying to displace it from the region. Russia and China regard the "color revolutions" as well as the promotion of the "Greater Central Asia" concept as attempts by the U.S. to pull the region into its own orbit. Similarly, the U.S. has interpreted the SCO's 2005 Astana declaration on the issue of U.S. military bases in Central Asia as a sign of Russia and China trying to push the U.S. out of the region. It would be bad for the region's development, not to mention dangerous if a zero-sum mentality takes root in the region. The SCO and the U.S. cannot ignore each other in the long-term. All parties must find avenues to improve relations and create confidence-building measures.

Conclusions

While the SCO is still a very young regional organization, its development has been rapid and achievements notable. Nevertheless, many organizational weaknesses and problems remain. The biggest success of the SCO in its five years of existence is its ability to survive through its nascent years. As a regional organization, not only did it weather a difficult period of change in the international system, it also managed to strengthen and develop institutionally. The major achievements of the SCO lie in its ability to make notable institutional

progress, particularly in developing a conceptual framework, in cultivating a positive image, in institutional capacity-building, as well as the cultivation of its institutional image. The major weaknesses of the organization lie in its lack of concrete economic achievements and its under-capacity as a regional organization with regards to the region's general affairs. As it continues to develop there are several issues it would have to address; namely, development framework, determining the scope of its functions, enlargement, external relations and its role in providing regional stability.