



## The Shanghai Co-operation Organisation: Probing the Myths

by Flemming Splidsboel Hansen,  
Royal Danish Defence College.  
December 2008

Brief



# **The Shanghai Co-operation Organisation: Probing the Myths**

by Flemming Splidsboel Hansen,  
Royal Danish Defence College.  
December 2008

Copenhagen December 2008  
Royal Danish Defence College  
Ryvangs Allé 1  
DK-2100 Copenhagen  
Denmark  
Tlf.: 3915 1515  
Fax: 3929 6172  
Editor in chief: Major General Carsten Svensson  
Graphic Design by Bysted  
Layout by Bent-Ole Kure  
ISBN: 9788791421600

## Contents

---

"The new thing to watch" .....	5
"An emerging common market" .....	5
"The power station of the Chinese economy" .....	6
"An anti-US alliance" .....	7
"A new Warsaw Pact" .....	7
"A rapidly expanding organisation" .....	9
Endnotes .....	10



## "The new thing to watch"

Definitely, but for a different reason than you might think. New regional organisations are always interesting to follow as they will tell us more about the things that make or break this type of co-operation. Originally established as "The Shanghai Five" in 1996, The Shanghai Co-operation Organisation (SCO) has been successful at reducing tension between the member states but it has since found it very hard to come up with a more ambitious agenda. Mutual suspicion and zero-sum thinking clearly run deep and the continued development of the organisation has suffered as a result of this. All told, the SCO is much more façade than real policy substance.

## "An emerging common market"

Hardly. Trade among the member states has increased dramatically in recent years, but behind this impressive development we find a less rosy picture. Total intra-SCO trade in 2007 stood at USD 89 billion or a mere 3.3 per cent of the total trade of the six member states.<sup>1</sup> The four smaller member states are all heavily dependent on the SCO for trade and their respective shares range from 44 per cent (Kazakhstan) to 80 per cent (Kyrgyzstan). However, with only 11.5 and 3.1 per cent, respectively, the figures for Russia and China are much lower.<sup>2</sup> And to this we should add the fact that the work done so far has been a simple exchange of goods – the painful challenge of setting up a truly common market still lies ahead.

Writing in 2007, the prominent Russian scholar Alexander Lukin complained that the main obstacle to successful economic co-operation is "the aggressive and selfish manner of China to uphold its trade interests, not always taking its partners' interests into account"; the economic co-operation would benefit, so Lukin went on, if only "Beijing displayed a more balanced approach and a better understanding that, apart from direct economic benefits, there are also long-term benefits based not only on economic but also on political, civilizational and other interests".<sup>3</sup>

There is little doubt that this complaint resonates well with the other four and smaller members of the Commonwealth of Independent States (CIS) but the reverse argument is also found; that China, the economic giant of the organisation, is being discriminated against by the other members who fear losing out to the highly competitive Chinese producers.<sup>4</sup> It seems clear that none of the member states are really willing to make unilateral sacrifices to further the common project, for instance so that distributional differences may be ironed out and fears about relative gains and "who gets more" may be calmed.<sup>5</sup> Continued failure to deal with both politically motivated obstacles as well poor local governance will serve as a brake on the future development in trade. And with a staff of

only around 30 and an annual budget of approximately USD 2.5 million, the SCO secretariat can do only very little in terms of much-needed third party monitoring, arbitration and enforcement.<sup>6</sup>

## **"The power station of the Chinese economy"**

Beijing hopes so, but the figures reveal a very different reality. In 2006, that is, after a full decade of co-operation, China covered only about 12 per cent of its oil import needs through trade with Russia and Kazakhstan, the two big energy exporters in the SCO.<sup>7</sup> In 1993, China became a net oil importer and there is little doubt that the country was hoping that increased co-operation with the two energy-rich neighbours could help solve the problem of future supplies.<sup>8</sup> Instead, China has to rely heavily on Middle Eastern and African supplies, and Angola is now the biggest exporter of oil to China.<sup>9</sup> This situation makes it vulnerable as supplies can relatively easily be disrupted by the United States of America (USA) in case of serious conflict, for instance over Taiwan.

Traditionally, Russian and Kazakh oil flows have been directed towards the industrialised Western part of the former Soviet Union and beyond to markets in Europe. This history of pipeline politics clearly has been to the disadvantage of China as exporters have a natural preference for existing lines. Moreover, geography plays a role as long transport routes as well as mountain ranges make oil exports across the Chinese border more complicated and thus less profitable.<sup>10</sup>

It is not just that, however. There is a political dimension also as distrust of China has led both Russia and Kazakhstan to favour alternative importers. A current project illustrates this. The Russian oil company Transneft has decided to build a 1,200 mile pipeline to connect some of the Siberian and Far Eastern oil fields to a port facility near Vladivostok. This is done in spite of Chinese offers to finance the short spur which could take most - if not all - of the oil across the border into China.<sup>11</sup> But Russia clearly wants freedom of delivery and by bringing the oil to the Pacific coast, it connects to the world market instead. A 2007 poll on China conducted in Russia was summed up in the words "the Russians want to be friends with China but from a distance" and there seems to be a growing recognition within Russia that by fuelling China's continued fast rise, the country is in fact accelerating its own exit from Central Asia.<sup>12</sup> Thus, the poll showed that 20 per cent of respondents see 21st century China as "a dangerous neighbour, a rival" while an additional four per cent find that it is likely to turn into "an opponent, an enemy".<sup>13</sup> We should expect that the more troubled the relationship, the more Russian energy exports will continue to go to markets other than the Chinese.

## "An anti-US alliance"

Yes, but it has little bite. Led by Russia, a majority of member states have taken care not to appear too anti-American. An example of this is the Chinese-Russian bilateral (so, non-SCO) military exercise "Peace Mission 2005", which the host country had planned to be held off the coast of the Zhejiang province, that is, close to Taiwan. The Russians refused this and instead insisted on a much less controversial exercise theatre in Xinjiang. In the end, a compromise solution was found in the north-eastern province of Shandong, which is close to the Korean peninsula. Admirers of the SCO often bill "Peace Mission 2005" as a warning to the USA not to use military force against the nuclear-craving regime of North Korea and they see it as a sign that the member states are getting ready to confront the USA. But in fact it was a simple compromise. North Korea was not even part of the original planning.<sup>14</sup>

Another illustration is the 2006 SCO "jubilee summit" in Shanghai, which was also attended by representatives of the four observer states. Before the summit, several CIS members, including Russia, insisted that the SCO is not built on opposition to the West and that it is not a rival to the North Atlantic Treaty Organisation (NATO).<sup>15</sup> And in the days leading up to the summit, it was openly reported how then Russian president Vladimir Putin instructed Iranian president Mahmoud Ahmajinedad to speak "more about the SCO and less about the USA".<sup>16</sup> The Kremlin clearly does not like the idea that Iran should use the SCO platform to provoke the USA, thereby dragging everyone else into the conflict. What we have seen though is soft power balancing against the USA.<sup>17</sup> The objective is clear – to tie down the USA by use of especially political and normative tools. It is interesting to follow, but increased use of the veto power in the United Nations Security Council and criticism of alleged human rights abuses inside and by the USA (as reported in the annual Chinese State Council report on the USA) hardly make the difference hoped for by the member states.<sup>18</sup> They are, however, reluctant to go further than that as they fear the possible US response to more traditional balancing efforts.

## "A new Warsaw Pact"

Not at all. "Peace Mission 2005" illustrated some of the problems of the military co-operation. Two years later, "Peace Mission 2007" put out even more dirty laundry. This was a proper SCO exercise held in the Ural region. To save time and fuel, the Chinese troops asked permission to cut across Kazakhstan as they made the arduous journey to central Russia. The answer from the Kazakh authorities, however, was negative. No permission to enter was given – not even to supposedly allied troops en route to a common exercise.<sup>19</sup>

And so far, so it should be added, only four so-called “anti-terrorist exercises” (Kazakhstan 2003, Uzbekistan 2006, and Kyrgyzstan and Russia 2007) have been held since the introduction of the SCO.<sup>20</sup> This must clearly be a disappointing figure for those member states which are hoping to see closer military co-operation within the SCO.

Following the 2003 antiterrorist exercise in Kazakhstan, the host government urged restraint; the fight against terrorist networks, so it argued, is the responsibility of law enforcement agencies and it went on to warn that military-led exercises “create a mistaken impression of SCO goals in the world community”.<sup>21</sup> The type of weapons used in the larger exercises, for instance strategic bombers, tanks and early warning systems, strongly suggest that these are in fact more like traditional military exercises; only again, it seems that some of the member states are concerned that by sending a more direct message of military prowess and resolve, they risk undermining their relationship with the USA.

There have been strong speculations that the SCO is set to merge with the Common Security Treaty Organisation (CSTO), the Russian-led alliance within the CIS.<sup>22</sup> The CSTO includes five of the six SCO members (only China is excluded) plus Belarus and Armenia. It would therefore seem that the two organisations could easily be merged, creating an even stronger military bloc. It is, however, a highly unlikely scenario.

In an early 2008 interview, CSTO Secretary-General Nikolai Bordyuzha explained that “presently we do not talk about [enlargement]”, adding that “there is no need to expedite the addition of new members”.<sup>23</sup> Bordyuzha’s comment reflects the lowest-common-denominator view of the members, and there is little doubt that this is the position held by Russia also. It therefore seems safe to presume that in the short to medium term, the CSTO will be unwilling to accept applications for membership, at least from non-CIS states such as China and Iran.

In general, distrust of China remains high in the other SCO member states, and the Russian media now write openly about Chinese intelligence activities within Russia.<sup>24</sup> This is of course a clear sign that not all is well in the relationship between the two states.

And the Russian view on China has hardly improved following the August 2008 Dushanbe summit, where all the other SCO members failed to endorse the Russian military campaign earlier that same month which helped Abkhazia and South Ossetia break away from Georgia. It was expected that Russia would win support from at least its four Central Asian allies, but as China insisted that it could not reward the secessionist regions Abkhazia and South Ossetia by recognising their sovereignty, the smaller member states managed to withstand what must have been strong Russian pressure.<sup>25</sup>

It should be added that in case of a merger of the CSTO and the SCO, Russia would be making the greater contribution by bringing the combined weight of the CSTO into the organisation; China, however, would gain more from such a deal as it should be expected to

dominate a formal military alliance in the same way as it has succeeded in dominating the SCO since the introduction of the co-operation. The Russian military may be technologically superior, but their Chinese colleagues are more numerous, enjoy greater defence spending and they represent the state that is the challenger of the future.<sup>26</sup>

## **"A rapidly expanding organisation"**

No. In fact, at the 2006 Bishkek summit the organisation introduced a moratorium on enlargement. Before the summit, then Secretary-General Zhang Deguang tried to remain positive by making clear that the organisation remains open to any would-be member. However, he also had to admit that "there are as many supporters as opponents of SCO expansion".<sup>27</sup> The division sets the SCO "drivers" China and Uzbekistan, which both favour rapid enlargement, against the "brakemen" Russia, Kazakhstan, Kyrgyzstan and Tajikistan.

Of the four observer states, both Pakistan and Iran have expressed strong interest in joining.<sup>28</sup> Both have also been rejected, however. The Russian-led group has made clear that it cannot accept membership for Pakistan as long as the Taliban enjoys widespread support within the ruling circles of the country.<sup>29</sup> There is a strong fear among these member states that Pakistan will bring an Islamist agenda into the SCO, something which they are determined to avoid.

In the same way, membership for Iran is rejected because of fear that the country will turn the organisation into a vehicle for its own campaign against the USA. If formally allied with both Russia and China, Iran clearly should be expected to be emboldened and to step up its nuclear brinkmanship. In the end, this would not deter the USA from launching a military strike against Iranian nuclear and military facilities. It would, however, put the other SCO members in an extremely awkward situation as they would need to do face-saving operations without doing real damage to their relationship with the USA.

The two remaining observer states, Mongolia and India, both seem content with their current status. In fact, there is a risk that the two countries could suffer reputational damage by fully joining "the club of dictators".<sup>30</sup> According to the democracy findings of Freedom House, a US nongovernmental organisation, both countries enjoy a degree of political freedom which is unheard of in the other states and they may therefore want to keep a certain distance.<sup>31</sup> This was clearly illustrated at the 2006 "jubilee summit" when India broke protocol by sending its minister of energy only. All the other members were represented by heads-of-state, but New Delhi had little interest in a close political embrace. And Mongolia and India will both be able to reap the benefits of closer economic co-operation without fully committing to the SCO. Against this background, they should be expected to remain on the sidelines of the SCO and to resist attempts to bring them into the organisation as full members.

## Endnotes

- 1) European Commission, Kyrgyzstan, Tajikistan, Uzbekistan, Kazakhstan, Russia and China - Trade Statistics, all 15 September 2008, all p. 4. This is with an average EUR-USD exchange rate of 1,3711 for the year 2007.
- 2) Ibid.
- 3) Alexander Lukin, "The Shanghai Co-operation Organisation: What Next?", *Russia in Global Affairs* 5/3 (2007), p. 145.
- 4) G ael Raballand and Agnes Andresy, "Why should trade between Central Asia and China continue to expand?", *Asia Europe Journal* 5/2 (2007), pp. 237-238.
- 5) Walter Mattli, *The Logic of Regional Integration* (Cambridge: Cambridge University Press, 1999), pp. 50-57.
- 6) The 2007 budget was USD four million; according to Lukin, "The Shanghai Co-operation Organisation": 146. Traditionally, the secretariat has received approximately 60 per cent of the budget, while the remaining 40 per cent have been given to the Regional Antiterrorism Center (RATS) in Tashkent, Uzbekistan.
- 7) British Petroleum, *Statistical Review of World Energy 2007* (2008), p. 20; available at <[www.bp.com/productlanding.do?categoryId=6848&contentId=7033471](http://www.bp.com/productlanding.do?categoryId=6848&contentId=7033471)>.
- 8) US Energy Information Agency [EIA], *Country Analysis Brief China* (2006), p. 3; available at <[www.eia.doe.gov/emeu/cabs/China/pdf.pdf](http://www.eia.doe.gov/emeu/cabs/China/pdf.pdf)>.
- 9) Ibid., p. 5.
- 10) Raballand and Andresy, "Why should trade between Central Asia and China continue to expand?", p. 236.
- 11) EIA, *Country Analysis Brief Russia* (2008), pp. 6-7; available at <[www.eia.doe.gov/emeu/cabs/Russia/pdf.pdf](http://www.eia.doe.gov/emeu/cabs/Russia/pdf.pdf)>.
- 12) E.g. *Kommersant*, 10 April 2006 and 15 June 2006 and *Ren TV*, 30 May 2006 in *Factiva*, 30 May 2006.
- 13) In *WCIOM*, *Press-Vypusk* no 674, 16 April 2007; available at <[wciom.ru/arkhiv/tematicheskii-arkhiv/item/single/4397.html](http://wciom.ru/arkhiv/tematicheskii-arkhiv/item/single/4397.html)>. An additional 24 per cent did not know whether to see China in either a positive or a negative light.
- 14) E.g. "Russia and China Play Army", *Forbes*, 18 August 2005.
- 15) *TASS*, 30 May 2006, *Factiva*, 13 June 2006, also *Radio Free Europe/Radio Liberty [RFE/RL]*, 27 October 2005 and 31 May 2006.
- 16) E.g. *Russian TV*, 19 June 2006, in *Factiva*, 19 June 2006; also *Factiva*, 14 June 2006.
- 17) E.g. T. V. Paul, "Soft Balancing in the Age of U. S. Primacy", *International Security* 30/1 (2005), pp. 46-71.
- 18) See State Council of the People's Republic of China, *Human Rights Record of the United States in 2007*, 13 March 2008; available at <[www.gov.cn/misc/2008-03/13/content\\_918785.htm](http://www.gov.cn/misc/2008-03/13/content_918785.htm)>.
- 19) *RFE/RL Newline*, 16 August 2007.
- 20) Chinese president Hu Jintao in *Factiva*, 31 May 2006; see also *RFE/RL*, 31 May 2007 and A. Krickovic, "Is SCO New Warsaw Pact or Modern-Day Holy Alliance?". *RFE/RL Endnote*,

22 August 2007. This figure does not include the 2002 bilateral Chinese-Kyrgyz exercise.

21) RFE/RL, 8 September 2003.

22) See, e.g. Marcel de Haas, "Armii ShOS nuzhny NATO", *Nezavisimoe Voennoe Obozrenie*, 22 February 2008; available at < nvo.ng.ru/forces/2008-03-21 >.

23) Yuri Plutenko, "'Our Military Exercises are a Threat for Terrorists, but not for the West' – Nikolai Bordyuzha", *Moscow News*, 24 April 2008; available at < www.mnweekly.ru/politics/20080424/55325469.html >.

24) Bruce Pannier, "Why Shanghai is Not Warsaw", RFE/RL Commentary and Analysis, 22 August 2008, and Dmitri Trenin, "The Role of the Russian Power Structures in Domestic Politics and Foreign Policy: What the Future Holds", in Jan Leijonhielm and Fredrik Westerland, eds. *Russian Power Structures – Present and Future Roles in Russian Politics* (Stockholm: Swedish Defence Research Agency, 2007), pp. 175-176.

25) "SCO Fails to Back Russia Over Georgia", RFE/RL, 28 August 2008.

26) According to Jane's, 2008 defence spending stood at USD 65,6 bn in China and USD 42 bn in Russia; in Jane's Sentinel Security Assessment, special issues China and Northeast Asia, 29 September 2008, and Russia and the CIS, 12 August 2008.

27) TASS, 30 May 2006.

28) RFE/RL, 7 March 2005 and 15 May 2006.

29) RFE/RL, 25 April 2001.

30) E.g. RFE/RL, 12 December 2005.

31) Freedom House, *Freedom in the World 2008* (2008); available at < www.freedomhouse.org/uploads/fiw08launch/FIW08Tables.pdf >.