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## UNDERSTANDING CHINA'S POLICY AND INTENTIONS TOWARDS THE SCO

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How policymakers assess the long-term political intentions of their states' adversaries is a fundamental issue in international politics. The problem is particularly acute in situations when major powers for reasons of their own security decide to refrain from stating their ultimate intentions. When their top-level policymakers fail to understand, or distrust, their counterparts in states regarded as adversaries, the world had better hold its breath, because war or peace may ultimately hinge on personalities and emotions, not hard facts and thorough analysis.

Yet an analytic assessment of the intentions of great powers is no easy matter. National leaders, intelligence services, and think tanks devote considerable resources to the problem, yet often fail to get it right simply because they are coloured by, respectively, individual perceptual biases and organizational interests and practices which lead the analysis astray.<sup>1</sup>

Among the world's great powers, China is one of those which arguably are most difficult to assess with regard to ultimate political intentions. The difficulties were voiced by the United States Ambassador to China, Gary Locke, who noted "that there is a concern, a question mark, by people all around the world and governments all around the world as to what China's intentions are."<sup>2</sup> China's top leadership seldom reveals its internal decision-making, nor its chosen strategies, so an outside observer has to resort to various analytical devices to assess China's intentions. These include but are not limited to a thorough analysis of the country's national interests (if known or deducible), political statements ("signals"), political, military, and economic power as well as infrastructure ("capabilities"), and political actions such as

the state's decision to enter into or withdraw from binding international institutions, significant investment decisions, and in extreme cases military intervention abroad ("behaviour").

Like any great power, China has a number of leading political institutions, including the Communist Party and its military, the People's Liberation Army (PLA); the State, led by the State Council, to which the Communist Party delegates day-to-day administration of the country; and the National People's Congress (NPC), China's unicameral legislature. The NPC is tasked to oversee the various state institutions, but in practice, the legislature is controlled by the Communist Party and is able to exercise little oversight. Other characteristics of the Chinese political system is that China is led not by one leader, but by a committee; that provincial leaders are comparatively powerful; that the political system regards statements by individual leaders as less authoritative than documents approved by committee; and that the Communist Party continues to control ideology. The system is meant to depend on meritocracy and predictability through the enforcement of term and age limits for holders of public office. Predictability is also the result of a preference for long-term planning and an emphasis on political stability, none of which entirely prevents bureaucratic competition, factionalism, corruption, and various adverse effects of weak rule of law.<sup>3</sup> While it can be assumed that not all leading institutions would agree on the exact details of China's national interests and capabilities, the emphasis on long-term planning and political stability presumably ensures that a general consensus has been reached among Chinese top policymakers and that there are generally few sudden changes in policy and in intentions.

Which does not necessarily make it any easier for an *outsider* to assess China's intentions. If the U.S. Ambassador found it difficult to assess China's political intentions versus his own country alone, how much harder would it be to assess China's intentions towards a regional international organization such as the Shanghai Cooperation Organization (SCO)? Yet, as one of the two major drivers behind the SCO (the other being Russia), China no doubt has intentions and can be expected to base its policy towards the SCO in a manner that is ultimately expected to be beneficial to Chinese national interests. So what are these interests?

CHINA'S NATIONAL INTERESTS IN THE CENTRAL ASIAN REGION

China's national interests in the SCO can be deduced from the manner in which the organization was formed. The SCO emerged from a summit meeting in April 1996 between China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. These countries shared common borders, and there was a need to ratify and consolidate the borders between the former Soviet states and China. The meeting resulted in the Shanghai Treaty of 26 April 1996. The initial emphasis was on border demarcation and confidence-building measures. From 1999, the organization became known as the Shanghai Five after its five member states. During a summit meeting in Dushanbe on 5 July 2000, the Shanghai Five became the Shanghai Forum as Uzbekistan was given observer status. At the summit meeting in Shanghai on 15 June 2001, Uzbekistan became a full member, and the Forum became the Shanghai Cooperation Organization (SCO).<sup>4</sup>

It is not surprising that China sees the neighbouring countries in Central Asia as being of strategic interest. Li Lifan has argued that China appears to regard Central Asia as a region which can provide it with strategic depth, a buffer territory where China can conquer new markets and reserves of raw materials and accumulate and wield influence through political and economic relations, in the form of trade, investment, loans, grants, and security. China sees itself as a gradually emerging major economic force in Central Asia, and this force will be considerably stronger and more effective than the Eurasian union advocated by Russia. Yet, Li Lifan argues, despite a strategic interest in gaining economic and political influence in Central Asia, China is unwilling to challenge Russia for the leading role in the region.<sup>5</sup>

The development of China's ties with the Central Asian states has been dictated by strategic considerations related to China's overall diplomatic strategy and policymaking. On the one hand, China wishes to improve diplomatic relations with major powers such as the United States, Russia, European Union, and Japan; while on the other hand, China also wishes to develop good relations with neighbouring countries using a friendly policy of good-neighbourliness. China has a common border with three of the Central Asian republics.<sup>6</sup> For China, Central Asia is a critical frontier. China depends on the Central Asian region for its energy security, trade expansion, and ethnic stability in its Far West, Xinjiang. China has opened Confucius Institutes to teach Mandarin in capitals across Central Asia, in an attempt to further Chinese soft power

in the region.<sup>7</sup> This may well be with the possible intent of ultimately reducing Russia's influence through enduring cultural links in the Central Asian republics, thus to replace Russian influence with that of China.<sup>8</sup> Russian observers have duly noted that the Chinese definition of soft power is broader than the West's, and that for China, culture has become an increasingly important factor in the aggregate power of the state with regard to foreign countries. Indeed, the Communist Party of China Central Committee in October 2011 passed a resolution which simultaneously addressed two perceived problems: neutralizing the "corrupting influence of Western culture on Chinese citizens" and, of considerable relevance to the issue of Chinese soft power within the SCO, the need for means of strengthening China's global attractiveness.<sup>9</sup>

However, China's foreign policy towards Central Asia balances between two overriding objectives. On the one hand, China attempts to augment its relationships with the Central Asian states. On the other, China must consider the influence and interests of other major powers. To avoid worrying the other great powers, China makes a point of not explicitly expressing its very real special interests in Central Asia and how China seeks to maintain them.<sup>10</sup>

True to its background in border demarcation and confidence-building measures, the SCO always focused on security, in particular, in Chinese parlance, the Three Evils of terrorism, separatism, and religious extremism. Security, in particular in the face of the threats of separatism and Islamic extremism, would thereby seem to be China's primary interests within the organization. China and Russia even pledged to send troops to defend other states from terrorism and separatism – which was the first time China ever formally pledged in a treaty to project military power beyond its borders.<sup>11</sup> Yet the SCO is not a military alliance, and the organization should not be regarded as such. Besides, China has yet to intervene militarily in the face of terrorism and unrest in the Central Asian republics, so China's actual behaviour, and indeed capabilities, in this field remain unknown. Besides, the member states of the SCO also share other concerns. Of these, some are primarily security-related, such as drug trafficking, weapons smuggling, illegal immigration, environmental pollution, water resource shortage, energy security, and emergent public health threats. However, another major concern is economic cooperation and economic development. For China, this concerns raw materials and energy in addition to security, and for this reason, China constitutes the main driver behind the SCO orientation

towards economics. Furthermore, it is this field in which an observer can identify and most easily assess China's signals and behaviour with regard to Central Asia.

#### CHINA'S SIGNALS: THE NEED FOR ECONOMIC DEVELOPMENT

Economic development seems to be the key to China's policy towards the SCO, at least judging from China's political statements. Pan Guang has noted that economic, trade, and energy relations between China and the Central Asian republics have been of prime importance to China.<sup>12</sup> Liu Junmei and Zheng Min have argued that while the SCO was initially established primarily to maintain regional security, its establishment and operation was a great success in promoting China's economic and trade relations with the Central Asian states – and promotion of economic cooperation among the SCO member states is arguably one important strategic means employed by China in order to develop the organization and thereby obtain the oil and gas resources of Central Asia.<sup>13</sup> Economic and trade relations between China and the Central Asian countries have developed rapidly since the SCO was formed. Compared with USD 500 million in 1992, China's trade with the five Central Asian republics reached USD 30 billion in 2010.<sup>14</sup>

As Liu Junmei and Zheng Min have pointed out, all economic and trade activities within the framework of the SCO are a means to an end: stability and growth. The same goes for other financial services such as foreign exchange, loans, and guarantees. With increasing economic and trade cooperation, the parties will be yet more closely linked to each other in the financial services sector. The development of regional trade will accordingly force the pace of regional financial cooperation, which in turn will bring stability together with growth.<sup>15</sup>

However, in particular during the early years, the SCO had only insignificant economic content. Economic ties among the SCO member states were mostly bilateral in nature. It took time to identify and lay the foundation for multilateral economic development. China realizes that the economic development of the Central Asian member states is a key to stable economic, trade, and energy relations. A number of SCO summits have reiterated this need. The SCO Tashkent summit in 2004 concluded that "Maintaining a sustained economic growth in Central Asia and the countries in its periphery and meeting the urgent needs of their peoples serve as a major guarantee for ensuring the stability and

security of the region and the countries in its periphery."<sup>16</sup> The SCO Astana summit in 2005 emphasized that the main priority for the near future was to realize the Action Plan on Fulfilment of the Programme of Multilateral Trade and Economic Cooperation between SCO Member States.<sup>17</sup> In October 2005, an agreement on the establishment of the SCO Interbank Association was signed during the meeting of the SCO prime ministers. The Interbank Association would include the China Development Bank, the Vnesheconombank of Russia, the Kazakhstan Development Bank, the National Bank of Tajikistan, and the Uzbekistan National Bank for Foreign Economic Activity.<sup>18</sup> The SCO Interbank Association was formally established in November 2005 in Moscow.<sup>19</sup> In June 2006 in Shanghai during the second meeting of the SCO Interbank Association, the Settlement and Savings Company of Kyrgyzstan joined as well.<sup>20</sup>

The SCO Shanghai summit in 2006 chose energy, information technology, and transportation as the priority areas of economic cooperation. In support of economic development, the SCO Business Council was inaugurated and a document on educational cooperation was signed at the summit.<sup>21</sup>

These were powerful signals of intent. Yet China aimed for even closer cooperation, and in some fields indeed integration. Already in 2002, China proposed to make the SCO a free trade zone, indeed the largest free trade zone in the world with more than 1.5 billion people. At a 2003 summit, the SCO prime ministers signed an agreement on multilateral trade and economic cooperation. In 2004, four working groups were formed for electronic commerce, customs, inspection of goods and harmonization of standards, and cooperation in investment.<sup>22</sup> However, China has faced difficulties in realizing its aims. When China's free trade zone initiative for various reasons, including the fear of Chinese economic expansion, did not go down too well with the Central Asian republics and Russia, which postponed the initiative to establish a free trade agreement, China instead intensified the negotiation of bilateral agreements on the establishment of free trade zones. Several small free trade zones were, for instance, created on the border between China and Kazakhstan.<sup>23</sup>

However, instead of the proposed SCO free trade zone, Russia has promoted the Eurasian Economic Community (EurAsEC), which has developed faster as a means of economic integration. Russia has, in effect, not yet relinquished its traditional influence in the region, and Russia

can thereby, if it so wishes, act as a spoiler for China's strategic interests.<sup>24</sup>

China also has plans for its national currency, the renminbi yuan (RMB). China aims for RMB regionalization, and ultimately RMB internationalization, that is, the eventual replacement of the hegemony of the United States dollar (USD) in international trade. Instead of the American USD as an international financial arbiter, China would prefer to see the Chinese RMB in its place, or at least as a worthy alternative. Liu Junmei and Zheng Min have noted that while East Asia remains the main field of RMB regionalization efforts, the SCO member states' recognition of China's successful economic development will lead to the deepening and expansion of regional financial cooperation which in turn will contribute to the realization of China's long-term objective to internationalize the RMB.<sup>25</sup>

China has made efforts to promote settlement in domestic currency in the border trade between China and Russia since 2002. However, especially since Russia in July 2006 made the ruble (RUB) freely convertible, the amount of RMB and RUB for border trade settlement has become seriously imbalanced, with the amount of RUB more than two hundred times higher than that of RMB. In effect, the RMB lost out as being uncompetitive. The emerging gap between the RUB and RMB and the increasing proportion of cash settlement in RUB between China and Russia proved quite contrary to China's strategic objective of RMB regionalization.<sup>26</sup>

Besides, the Chinese quest for a common market is far from being unanimously accepted. In the post-Soviet space, many industries never recovered from the collapse of the Soviet Union, and those that survived still cannot compete in financial terms with their Chinese competitors. Hence, given the development and growth differential, Russia and the Central Asian republics are not that interested in forming a free market with China. Russia as well as the Central Asian republics fear that they might be turned into a Chinese economic protectorate. Yet in China they see an alternative to the politically more demanding Western partners when it comes to investments in raw materials extraction and in particular the energy sector. In these sectors, Central Asian and Chinese interests currently coincide and Chinese investments are eagerly expected.<sup>2</sup>

#### CHINA'S CAPABILITIES: IMPROVING INFRASTRUCTURE BOTTLENECKS

China needs transportation infrastructure to import raw materials and

energy and to export manufactured goods. Since at least 1997, China has repeatedly emphasized that it has no choice but to augment domestic energy sources through imports from abroad, in particular Central Asia and Russia. Yet another Chinese interest in Central Asia is the creation of a regional rail network which, unlike the sea routes, would be beyond the control of the United States. Such a land transportation route, if fully functional, could in case of future conflict with the United States be used to move vital natural resources, manufactured goods, and in particular war materials into and out of China.

China is naturally keen on using the Central Asia-Siberia land-based transportation route for peace-time exports of consumer goods as well, including to the European markets. China has signed bilateral and multilateral agreements on automobile road communications with all Central Asian SCO members (a three-party agreement with Kyrgyzstan and Uzbekistan, and a four-party agreement with Kazakhstan, Uzbekistan, and Pakistan).<sup>28</sup> This is important, since automobile road communications remain the majority of existing transportation routes within the region and across the continent. By road, manufactured goods can be moved to Europe as well as to the Middle East and South Asia. Likewise, raw materials and energy can to some extent be moved to China. However, for these deliveries, other means of transportation are vital, including pipelines and railway.

In the days of ubiquitous and easy air travel, it is sometimes easy to forget the importance of rail communications for heavy goods transportation. Like other major infrastructure projects such as pipelines which once placed cannot be moved, the ownership and control of a railway is significant for how it can be used, but the same goes for technical details such as rail gauge. The former Soviet states and Mongolia use rail track with a broad gauge (1,520-1,524 mm), while China instead relies on standard gauge (1,435 mm) rail track. This entails the time-consuming change of bogies before a train can cross the border. Whoever builds a railway may thus influence its later usage. Since Russian engineers in the late nineteenth century constructed the Chinese Eastern Railway, built across Manchuria in Northeastern China to provide a shortcut for the Trans-Siberian Railway to Vladivostok, they used broad gauge rail track there as well, thus in effect making this part of China's railway network a component within the Russian one.<sup>29</sup> In 1935, the Soviet Union even sold the Chinese Eastern Railway to Japan, after long negotiations. Besides, China has presumably not forgotten that the first

railway project which aimed to reach its western territories, Xinjiang, was not projected to connect Xinjiang with Beijing – but with Russia. In the 1930s, Xinjiang was under the control of a general from Manchuria named Sheng Shicai (1895-1970; r. 1933-1944). In 1934 and 1937, the Soviet Union covertly intervened with troops and aircraft to aid Sheng against Muslim revolts. Sheng, who also played on Soviet fears of Japan, received other forms of Soviet support as well. In return, he in late 1933 reportedly signed an agreement which granted the Soviet Union the right to build a railway from Ayaguz (Sergiopol) in present-day Kazakhstan through Chuguchak to Urumchi in Xinjiang. Alongside this agreement, the Soviet Union received concessions for the exploitation of Xinjiang's mineral and oil resources. Soviet experts began to drill for oil in 1935, production began in 1939, and the 1940 Tin Mines Agreement gave the Soviet Union "exclusive rights for the prospection, investigation and exploitation of tin and its ancillary minerals" throughout Xinjiang, together with exclusive control over power supply, road transport, and other communications necessary for the task. Provincial traffic even had to switch from left-hand drive, which was the norm in China, to right-hand drive as in the Soviet Union.<sup>30</sup>

Chinese dreams for a railway to connect its productive areas on the Pacific rim with the markets in Central Asia, the Middle East, and Europe had already existed since the final years of the Qing dynasty, but China naturally wished for a railway under Chinese, not Russian control. In 1907, Russian intelligence officer and future Marshal and President of Finland Gustaf Mannerheim (1867-1951) investigated China's plans for future westward railways. A Qing lieutenant general (a brigade commander, *zhentai*)<sup>31</sup> in Aqsu told him that there were plans for two Chinese railways towards Russia. The first, northern railway would run from Shanghai and Beijing via Kalgan and Urga up to the junction with the Trans-Siberian railway. The other, southern line would run from Shanghai and Beijing via Lanzhou to Hami, where it would divide, the northern branch running along the north side of the Tianshan to Qulja, while the southern branch would extend via Aqsu and Kashghar to Andijan in present Uzbekistan. Both would be built by Chinese personnel, the Qing general informed Mannerheim. Later, in a new modern-style school in Urumchi, Mannerheim saw the two projected railway lines marked on a map as well.<sup>32</sup> Similar plans influenced the early years of Sino-Soviet friendship. The Sino-Soviet agreements of 1950 among other things stipulated that a railway line was to be built from

Lanzhou through Hami (begun in 1952, completed in 1959) and Urumchi (completed in 1962, opened in 1966) to Almaty in present-day Kazakhstan. The westward extension of the railway from Pacific-rim China to Urumchi had a great effect on the development of Xinjiang, but because of the Sino-Soviet rift from 1959 onwards, it was only in 1990 that the railway from Urumchi to Alashankou on the Kazakhstan border was finally completed, joining the Chinese and Central Asian railway system. Besides, the new railway was only opened in 1992 when the relation of power between China and the former Soviet states had been overturned.<sup>33</sup> Standard gauge rail track was used up to the Kazakhstan border, broad gauge track on Kazakhstani territory. This pattern persisted when a second cross-border railway to Kazakhstan was opened in December 2012, by way of Korgas on the Kazakhstan border.<sup>34</sup>

This brief excursus serves to illustrate how different countries perceive different needs and envisage different strategies in international railway construction. China wishes to develop transportation routes to connect by land its productive areas on the Pacific shore with the markets in Central Asia, the Middle East, and Europe. For China, it would be beneficial to build a railway through Kyrgyzstan and Uzbekistan in addition to the ones through Kazakhstan to take advantage of terrain as well as commercial and population hubs. However, this project is bound to concern Russia, since such a railway, in particular if built to advantage the Chinese use of standard gauge rail track, would increase Chinese influence in the region. The simple fact that the former Soviet states never shifted away from the broad gauge rail system was one factor which supported the continuation of strong trade bonds between Russia and the Central Asian republics.

In February 2013, the government of China officially approved the project for the construction of the long-awaited China-Kyrgyzstan-Uzbekistan railway line.<sup>35</sup> By August 2013, a decision had reportedly been taken that the railway line would be built with broad gauge rail track, despite Chinese attempts to argue for a standard gauge solution.<sup>36</sup> This may be seen as a victory for residual Russian soft power and the lingering effects of Russian technical standards in the region. In addition, the approval of the project was widely interpreted as resulting in the postponement of another, competing Central Asian railway project, the China-Kyrgyzstan-Tajikistan-Afghanistan-Iran railway. For Iran, the announcement of the choice of railway line was a disappointment and likely one of several reasons why Iran's newly elected president Hassan

Rouhani appeared indifferent about taking his first trip abroad as president to Bishkek for the SCO summit planned for 13 September 2013.<sup>37</sup>

Iran has become an increasingly difficult strategic partner because of its complex international relationships and policies. Even so, because of the already mentioned perceived strategic need for a regional rail network which, unlike the sea routes, would be beyond the control of the United States, it is unlikely that China would support any move to increase the influence of the United States in the region, or the coming to power of a pro-American government in any country bordering China. The Chinese leaders would also no doubt prefer to retain influence over Pakistan including through Chinese participation in infrastructure projects, due to what may well be the remaining, and continuing, strategic objective of containing India and, despite improving Sino-Indian relations, in case of war, the hope to force India into a two-front war, a strategy that also includes Tibet and Burma.<sup>38</sup>

Even with a new China-Kyrgyzstan-Uzbekistan railway line, the transportation infrastructure between China and Central Asia will remain insufficient and continue to suffer from bottlenecks. This matters. Infrastructure forms a key part of not only economic but also military and political capability. The days are long since gone when the PLA operated as a poorly equipped, barefoot peasants' army. In August 2009, China announced its then largest-ever tactical military exercise, Stride-2009, in which one army division from each of the military commands of Shenyang, Lanzhou, Jinan, and Guangzhou would participate. Notably, the Shenyang military command faces the Russian Far East, while the Lanzhou military command faces southern Siberia and Central Asia. Unlike previous annual tactical exercises, the participating four army divisions and their air units would be deployed, in part by civilian high-speed and regular rail and air transport, to unfamiliar areas far from their garrison training bases. Except for this emphasis on long-range mobility, the objectives of the exercise were not announced, but this is the kind of long-range mobilization that would be required for any major war operation along China's land borders. What the Chinese state media did announce, however, was that the exercise would focus on suppressing a technologically skilled adversary's electronic devices and countermeasures, that the manoeuvres would take place in a complex electromagnetic environment, and that the troops involved in the exercise would not be dependent on foreign communication systems.<sup>39</sup> These statements would seem to confirm that the manoeuvres were no mere

anti-terrorism exercise. In this context, it should be noted that the Russian military remains technologically at an advantage compared to its Chinese counterpart. For Russia and the other SCO member states, the exercise may well have been a powerful signal. It also displayed China's military capabilities in the region, which although impressive were by no means spectacular. A tentative analysis may be that the signal was that China had a military capability within the region, yet there was no particular emphasis on transportation capabilities beyond those already in existence and these clearly were insufficient to move more than a few army divisions. Any new railway network may accordingly, at least for the time being, chiefly signify an economic interest, not the future projection of military power.

#### CHINA'S BEHAVIOUR: RAW MATERIALS AND ENERGY IMPORTS

Without downplaying the importance of China's initiatives to assist in the region's economic development, China has been particularly eager to import raw materials from Central Asia. China at the same time is keen to export manufactured goods to the region's markets. From 2001 to 2010, the share of raw materials in the total exports from the Central Asian republics to China increased from an already significant 84.4 per cent to 92 per cent. Of this, energy resources constituted more than 67 per cent, ferrous and nonferrous metals about 21 per cent, chemicals over 1 per cent, and textile raw materials about 3 per cent. In return, China exported manufactured goods, which by the end of that period had reached more than 90 per cent of Chinese exports to the region.<sup>40</sup>

In these figures, the observer finds yet other Chinese signals and behaviour – and no doubt national interests as well. China sees a need to promote the optimal allocation of resources in mutually beneficial economic cooperation, which in this case also would assist China in achieving the goals of its energy strategy and fulfil its demand for energy. Liu Junmei and Zheng Min have emphasized that promoting the optimal allocation of natural resources is one important way to strengthen SCO regional financial cooperation, which in turn brings important benefits to the entire region.<sup>41</sup> Yet, this will in many respects be an optimal allocation of resources on China's terms and in accordance with China's needs.

China is particularly interested in exploiting the energy resources of the SCO member states. In this ambition, present-day China is strikingly similar to the Soviet Union at the time of the 1940 Tin Mines Agreement

which gave the Soviet Union exclusive rights with regard to minerals and oil reserves throughout Xinjiang. China needs alternative sources for its energy supplies, and would for reasons of risk diversification prefer to avoid single-supplier dependence. Political volatility and instability in the Middle East seems to continue, and China also sees a need to reduce dependence on critical maritime routes to import energy. An oil pipeline from Kazakhstan to China came into operation in 2006, and a natural gas pipeline from Turkmenistan to China via Uzbekistan and Kazakhstan was opened at the end of 2009. Furthermore, the economic cooperation that the SCO is committed to is directly contributing to China's programme for developing its western regions. It should be remembered that for China, the Central Asia-Siberia region forms the only land-based transportation route for energy imports. Besides, Central Asia has the potential to open a land transportation route for the Chinese energy imports from the Middle East as well.

One key means that China has at its disposal is to bolster its influence by turning its foreign exchange reserves into physical resources reserves, by exchanging resources for infrastructure construction and credit or equity investment in the Central Asian raw materials and, in particular, energy sectors. In the Central Asian republics, and to some extent in Russia as well, there is a serious funding gap for the large capital investments needed to develop new energy resources and finance improvements to the existing infrastructure. Such cooperation can easily take place under the SCO framework.<sup>42</sup> Capital investments can also take place under bilateral agreements, but the SCO framework is not intended to compete with bilateral agreements. Indeed, one could argue that the very looseness of the SCO may facilitate the negotiation of bilateral agreements in the field of trade and economy.

This is particularly visible within the SCO concept of an Energy Club. The idea of forming an SCO Energy Club did not come from China, but from Russia. This was not surprising; Russia had a long history of coordinating and developing the energy reserves of what was then the Soviet Union. For this reason, the proposal to establish a unified and coordinated system of energy supply for the SCO member states was first raised in 2004 by Russian Prime Minister Mikhail Fradkov during the Bishkek prime ministers' summit. In the following year, Tajikistan proposed a unified hydroelectricity network. Then, at the 2006 SCO Summit in Shanghai, Russian President Vladimir Putin proposed the formation of the SCO Energy Club to coordinate the energy policies of

the member states and to increase energy cooperation among them. His proposal was approved by the subsequent SCO prime ministers' summit in Tajikistan later in the year. Ahead of the 2007 SCO Summit in Bishkek, Kazakhstan presented a plan for an Asian Energy Strategy. Finally, in Moscow in June 2007, the SCO Energy Ministers (except their counterpart from Uzbekistan who was not present) agreed to establish the SCO Energy Club according to the plan first proposed by President Putin. The SCO Energy Charter was formally signed during the August 2007 SCO Summit in Bishkek.<sup>43</sup>

The SCO includes major energy producers like Russia, Kazakhstan, and Uzbekistan as well as energy consumers such as China, while Tajikistan and Kyrgyzstan are both producers of hydropower and consumers of imported energy. If the SCO observer members like Iran, India, and Pakistan are included in the cooperative effort, the SCO Energy Club has huge potential. However, few states – whether inside or outside the SCO – are willing to surrender their own national interests in energy security. So far, the SCO has not coordinated any major energy project under its guidance. Instead the emphasis has been on bilateral or trilateral energy projects among SCO member states, and the observer states have seen minimal involvement in SCO energy projects. Even so, Sreemati Ganguli has noted that although the Energy Club remains a work in progress and there are apprehensions, for several reasons this institution has the potential eventually to become possibly the key energy alliance in Eurasia. The SCO Energy Club has institutionalized the idea of mutual energy dependence among the producing states, consuming states, and transit states. Since the SCO Energy Club is not a mere energy producers' union, it seeks to involve all members of the energy chain in the region. In fact, the concept of the Energy Club, if successfully implemented, might for this reason open up entirely new avenues of regional cooperation and integration in Asia as a whole. The Energy Club indeed provides the SCO with a third dimension, beyond its present ones of security and economic cooperation.<sup>44</sup>

Even though it was Russia, not China, which set the Energy Club in motion, this third dimension is one from which China can greatly benefit. The Chinese expectation of turning its foreign exchange reserves into physical resources reserves, by exchanging resources for credit or equity investment in the Central Asian raw materials and energy sectors would be greatly facilitated by a functioning Energy Club, even under a regime of bilateral agreements. As noted, the SCO framework is not intended to

compete with bilateral agreements and may indeed facilitate the negotiation of bilateral agreements in the field of trade and economy.

China could also benefit from the potential of using the SCO Energy Club as a balancer. Both Russia, which initiated the project, and China see the need within Central Asia to counter-balance the energy interests of third countries. For Russia, these are the European Union and the United States, while for China, the concerns are the volatile Middle East and the United States. Sreemati Ganguli opines that the Energy Club eventually might also become a balancer of NATO's possible energy interests in Eurasia. While it remains to be seen if NATO succeeds in finding a role in energy security, this was a topic of discussion during several NATO Summits, including those at Riga in 2006 and Bucharest in 2008. NATO wishes to engage in the promotion of energy security for its members. This might include the sharing of information and intelligence; the advancement of international and regional cooperation in energy; and support for consequence management and the protection of critical energy infrastructure.<sup>45</sup> If the NATO engagement with energy security results in an increased NATO presence in Central Asian energy, China no doubt would find the SCO useful as a balancer, so as to avoid positioning itself directly against NATO interests.

#### JAPAN, PERCEIVED ADVERSARY

It is noteworthy that Japan has been excluded from the SCO. In fact, some observers have gone so far as to draw the conclusion that the structure of the SCO was designed so as to exclude and disadvantage Japan, since Japan is the West's arguably main strategic ally in East Asia, with a U.S. military presence and close relations with NATO.<sup>46</sup> Whether this outcome was a result of China's or Russia's policy interests, or a coincidence, remains unclear. Russia and Japan, as is well known, have not yet signed a peace treaty formally ending World War II hostilities, because of the sovereignty dispute over the islands of Etorofu, Kunashiri, Shikotan, and the Habomai group, known in Japan as the Northern Territories and in Russia as the Southern Kuriles, occupied by the Soviet Union in 1945, since then administered by Russia, and still claimed by Japan.<sup>47</sup> Yet China is arguably the greater rival of Japan, with unsolved territorial disputes of its own, in particular over the uninhabited Senkaku islands, known as the Diaoyu islands in China.<sup>48</sup>

Observers from the Central Asian states, to the contrary, often

consider the eventual participation of Japan in the SCO to be very beneficial. To include Japan in SCO activities would give the Central Asian SCO member states more room for economic and political balancing between the major powers.<sup>49</sup> In this context, it should be noted that the Japanese scholar Iwashita Akihiro has proposed giving Japan an ad hoc status at SCO summits. A framework in the form of the SCO Plus Three (the European Union, United States, and Japan) would be beneficial, since this could link the SCO to other regional organizations such as the South Asian Association For Regional Cooperation (SAARC), ASEAN, and the Six-Party talks on North Korea.<sup>50</sup> In fact, in the years following Iwashita's proposal there was talk of an SCO Plus Three format of the type which he had suggested, in particular with regard to security issues involving Afghanistan.<sup>51</sup>

However, China would no doubt, for historical reasons, prefer to see Japan remain outside the SCO format, in the belief that the inclusion of Japan would prevent China from achieving its full objectives in Central Asia. This, however, may be a mistake due to the possible failure of the Chinese top leadership in understanding Japan's ultimate intentions. As noted above, individual perceptual biases and organizational interests and practices often lead national foreign-policy analysis astray. In this particular case, it seems likely that wartime memories still haunt the Chinese top leadership and colour its collective view on Japan. An enduring feature of Sino-Japanese relations since 1978, when Deng Xiaoping introduced policies to reform and open up China, is that Japan has gone along with China's interests and indeed accommodated and facilitated China's rise as an economic and political great power.<sup>52</sup> Besides, soft power is one thing, economic and military force another. Japan is highly unlikely even to consider the projection of military force into Central Asia, or to assist NATO in doing so in the face of Russian or Chinese opposition. Whether the inclusion of Japan in the SCO format would enable the Central Asian states to balance Chinese interests against those of Japan is by no means a certainty.

STABILITY IN XINJIANG AND THE UYGHUR FACTOR, CHINA'S  
NATIONAL INTEREST IN THE FAR WEST

In addition to trade and land transportation routes, China sees its influence in Central Asia as a key foothold for maintaining stability in its Far West, Xinjiang, since 1955 designated the Xinjiang Uyghur

Autonomous Region (XUAR). In Xinjiang, longstanding tensions between Muslim Uyghurs and ethnic Han Chinese have several times resulted in violence. For China, stability in Xinjiang is a very real national interest. China is especially concerned by Islamic extremism filtering in from the Central Asian states, Pakistan, and Afghanistan. A substantial minority population of Uyghurs lives in several of the former Soviet Central Asian republics. About a half million Uyghurs live in the broader Central Asian region, many of them the descendants of earlier immigrants from Xinjiang to Kazakhstan and Kyrgyzstan.<sup>53</sup>

Xinjiang, formerly known as East Turkestan, has long seen separatist aspirations. More than sixty per cent of Xinjiang's inhabitants belong to ethnic minorities. According to official statistics, the region's largest ethnic group is the Uyghurs, numbering almost half the total population. Most other minorities are also of Turkic origin, including a large population of Kazakhs, numerous Kyrgyz, and some Uzbeks. There are also Persian-speaking Tajiks as well as a significant population of Mongols. Han Chinese so far form only the second largest ethnic group, with a population of somewhat less than that of the Uyghurs (according to official statistics, not necessarily reliable as China for political reasons may wish to play down the Han Chinese presence in the region). From 1944 to 1950, an independent, Uyghur-led secular republic – the East Turkestan Republic – was in effective control of the northern section of present-day Xinjiang (Ili, Tacheng, and Ashan (present Altay) districts; official Chinese historiography thus refers to it as the “Three Districts Revolution”). The East Turkestan Republic enjoyed support from and to some extent was controlled by the Soviet Union.<sup>54</sup>

Kazakhstan has a substantial Uyghur minority and was the home of several Uyghur separatist groups. There is also a modest Uyghur population in Uzbekistan. However, there are no overt signs of Uyghur separatism within the country, perhaps for domestic political reasons. However, Kyrgyzstan has the second largest Uyghur minority in the Central Asian republics, after Kazakhstan, and is the Central Asian republic which has perhaps felt the political repercussions of the Uyghur presence most. Kyrgyzstan has on several occasions faced Chinese pressure to deal with its separatist Uyghurs: in May 2000 five Uyghur separatists were ordered deported to China. Perhaps in retaliation, a leading Chinese businessman was kidnapped in the city of Osh by what may have been Uyghur separatists, who demanded a ransom for his release. In July 2000, the Kyrgyz government responded by arresting

ten members of the Uyghur Liberation Front, among whom were reportedly Uzbeks, Uyghurs, Turks, Kyrgyz, and Chinese (nationals of presumably Uyghur origin) who allegedly had fought in Chechnya and trained in Pakistan and Afghanistan.<sup>55</sup> In November 2003, Kyrgyzstan banned two Uyghur groups, including the *Turkestan Islamic Party* (TIP).<sup>56</sup>

The presence of the latter was important. Outside China, few regard the lingering Uyghur separatist sentiments in Xinjiang as a source of international terrorism or an existential threat to the Chinese state. However, the TIP is another matter. As its name suggest, the TIP consists not of secular separatists but Islamic extremists. The TIP built up bases in first Afghanistan, under Taliban protection, and then in Pakistan, where its militants currently cooperate with other international jihadists. From Pakistan, the TIP regularly releases jihadist videos and since 2008 an Arabic-language web magazine, *Islamic Turkistan*, which promotes support of Al-Qaida and hatred to not only China but the West as well. Since knowledge of Arabic is not widespread in Xinjiang, it can be assumed that *Islamic Turkistan* is primarily written for a Middle Eastern readership. The web magazine features martyrdom biographies, interviews with TIP leaders, and religious justification for waging jihad against infidels and Muslims who do not support the extreme views of the extremists. Its purpose, beyond general support to jihadist feelings, is perhaps to publicize the TIP, position Xinjiang as part of the global jihadist movement together with Afghanistan, Yemen, Iraq, Syria, and elsewhere, and bring in funds to finance the *jihad*.<sup>57</sup>

For China, separatist sentiments in Xinjiang are for reasons of national sovereignty a cause of real concern, making stability in Xinjiang a key national interest. Yet, there is little evidence that the TIP has a substantial presence in Xinjiang or indeed in any other place but Pakistan. Even so, China is wary of any ethnically or religiously based political activities within the large Uyghur Diaspora in Central Asia, in particular if signs indicate links to the TIP or other Islamic extremist groups, since such activities might become a threat to China's ability to maintain stability in Xinjiang. The SCO and its avowed struggle against the Three Evils of terrorism, separatism, and religious extremism for this reason forms a fundamental means for China indirectly, through the Central Asian governments, to apply pressure on political groups within the Central Asian Uyghur Diaspora and thus to maintain stability in Xinjiang. This is important, since the extensive Uyghur Diaspora is well-connected in the West as well as in Turkey and several other countries.

### CONCLUDING REMARKS

For China, Central Asia is a critical frontier. China depends on the Central Asian region, and accordingly the SCO, for its energy security, trade expansion, and ethnic stability in its Far West, Xinjiang.

China's primary national interest within the SCO is no doubt security, in particular in the face of the Three Evils of terrorism, separatism, and religious extremism. Another major national interest is economic cooperation and economic development. It should be noted that for China, all economic and trade activities within the SCO framework are a means to an end, namely stability and growth.

China has been particularly eager to import raw materials and energy from Central Asia. China has repeatedly emphasized that it has no choice but to augment domestic energy sources through imports from abroad, in particular Central Asia and Russia. China at the same time is keen to export manufactured goods to the region's markets and generally expands trade aggressively. For this, China needs an efficient transportation infrastructure, including the creation of a regional rail network which, unlike the sea routes, would be beyond the control of the United States in case of future conflict. The railway from Urumchi to Kazakhstan by way of Alashankou began operations after the dissolution of the Soviet Union, and a second cross-border railway to Kazakhstan was opened in December 2012, by way of Korgas. A decision has also been taken to construct the long-awaited China-Kyrgyzstan-Uzbekistan railway line. However, even with these railway lines, the transportation infrastructure between China and Central Asia will remain insufficient and continue to suffer from bottlenecks. In other words, China's capabilities remain insufficient to fulfil all its policy objectives in the region.

Ultimately, China's intentions seem to include an ambition to surpass Russia's influence in the Central Asian republics. China has proposed to make the SCO a free trade zone and aims for RMB regionalization, and ultimately RMB internationalization. However, the Chinese quest for a common market is far from being unanimously accepted and remains unfulfilled. China's soft power has not yet, despite considerable efforts, resulted in any major gains in capability to achieve these goals.

For China, separatist sentiments in Xinjiang are for reasons of national sovereignty a cause of real concern, making stability in Xinjiang

a key national interest. The SCO accordingly forms a fundamental means for China indirectly to apply pressure on political groups within the Central Asian Uyghur Diaspora and thus to maintain stability in Xinjiang. Without this support from other SCO member states, China would have only limited opportunities to suppress the extensive and well-connected Uyghur Diaspora's support for separatism in Xinjiang.

For these various reasons, China needs the SCO. Despite genuine and very impressive economic achievements, China is not yet sufficiently powerful to enforce its will unilaterally. China's relationship with other SCO member states is one of mutual dependence, not indisputable leadership. Besides, Russia has considerable means at its disposal to thwart Chinese ambitions in Central Asia, if these are deemed incompatible with Russian interests. China's top leadership realizes its limitations, even though Chinese rhetoric and in extension Chinese public opinion may not acknowledge or fully grasp these checks on China's power.

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