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## **An Outlook on Energy Cooperation Approaches in the Shanghai Cooperation Organization (SCO) Region**

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### **Abstract**

In twentieth century, especially during the Cold War era, the two ideas of Nationalism and Internationalism were the main competitor approaches in different schools of thought in the field of international studies. However, global integration between states and nations from economic, cultural, and communication aspects has created a new magnificent world which is more integrated and the interests of political units are more incorporated. Based on this new world order, the major rival trends in the world arena are two recent dominant approaches of globalism and regionalism. The appearance of the successful regionalism regimes in Europe and also in the South East Asian region while they have tried to keep their correlations with the global trends, have prepared a suitable model for other regions to construct regional unities in a globalized framework.

This paper aims to examine one of the most important issues in the SCO region - the exploration and transportation of energy - in the framework of regionalism and globalism approaches. Regarding to this matter, the outlook of the energy cooperation between the SCO countries and the position of the other powerful players in the region will be analyzed. The opportunities and challenges confronted with the producers and consumers of this strategic commodity to achieve energy security in this region also will be discussed.

**Keywords:** Regionalism, Shanghai Cooperation Organization (SCO), Eurasia, China, Russia, Central Asia, Energy.

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## **Introduction**

The access to different sources of energy has special strategic significance in recent times, particularly for fast growing and emerging economies. Eurasia sits atop the world's major energy resources, and recent years have seen rapid developments in the exploitation and transportation of these resources to the outside world. At the same time, however, some security concerns are growing in the region. Exploitation of Eurasia energy resources is taking place in a climate of serious competitions that threaten peace in the region. Regional security issues including inter-ethnic and inter-religious tensions have provided a favorable atmosphere for different actors to further their agenda. Such a kind of circumstances requires concerted regional efforts to deal with these deeply interlinked security issues.

Regarding to these realities, it seems that Shanghai Cooperation Organization (SCO) as the most powerful and united regional mechanism can play an important role to improve the security of access to energy resources in this region for both energy producing and consuming countries. Besides the task of guaranteeing the access to the energy security, there are two additional tasks of particular importance for SCO strategic planners.

First, regional stability, especially in the turbulent ethno-religious regions, is a serious issue. The SCO countries view the claims for autonomy and participation in the politico-economic power of the central governments stated by ethnic and religious minorities as a direct threat to their territorial integrity. The fact that energy transportation routes have to cross unstable regions raises this problem.

Second, the SCO great powers such as China and Russia promote a multipolar world order in their foreign policy strategy. As a result, in

spite of some competing interests in the strategic perceptions of the SCO countries, the situation is prepared for a regional cooperation.

Today, the SCO is the sole institution with the potential to become a nucleus of a broader regional cooperation regime in Eurasia. It is also notable that there are several issues in which the members have strong common interests with the other powerful countries, e.g. regional stability. In fact, strengthening of regional cooperation mechanisms, rather than against the outside powerful players such as the United States and the European Union, has prepared a very reasonable means for absorbing geopolitical tensions and creating a new framework of cooperation, especially in the field of energy security.

Geographically, the Shanghai Cooperation Organization has the elements to serve as an effective forum for such efforts. The organization occupies territory from the Arctic to the Indian Ocean and from Kaliningrad to Shanghai, its six full members account for 60 per cent of the land mass of Eurasia and its population is a third of the world's. With observer states included, its members account for half of the human race and take in a stretch of Eurasia from the South China Sea to the Baltic Sea and from the Persian Gulf to the Bay of Bengal. It may become the second political pole of the world after the United Nations.

With these regards, in the world that Globalism describes the reality of being interconnected, and explains a world which is characterized by networks of connections that span multi-continental distances, the SCO, based on its traditional Silk Road, provided an economic and cultural link between ancient Eurasian territories, could present a new kind of cooperation and interrelations in the framework of a kind of "Glo-regionalism" in different economic, political, cultural and strategic aspects. The term of Glo-regionalism presents the two levels of

cooperation between the SCO members who are trying to be integrated regionally without ignoring the necessity of cooperation with their Western partners in a global structure.

### **Methodology**

This article seeks to explore the implications of SCO's engagement with energy security issue as a Glo-regional subject in the Eurasia region. The authors try to understand what practical problems such an expanded organization could help to solve, what opportunities it could realize, and how the SCO's engagement in energy trade is a function of favorable political developments in both regional and global levels.

They also attempt to analyze how the constellation of interests under analysis provides the necessary framework for examining the SCO in terms of its possibilities and limitations in the field of energy cooperation. The idea that how closely energy politics and geopolitics are interrelated in the SCO region and how important the region is for Asian and non-Asian powers, particularly with regard to its multi-ethno-religious feature and its huge amount of energy resources also will be examined.

### **Discussion**

#### **A Review of Transformation in the SCO's Missions and Functions**

When the Shanghai Five was formed in 1996, its primary objective was to boost border security and reduce troop levels along China's frontiers with former Soviet republics through a variety of confidence building measures. Initially the grouping looked a little tentative. To this end, Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan set up an intergovernmental structure to settle territorial disputes and to coordinate

action on common threats such as terrorism, separatism, and extremism(Rashid, 2002).

In June 2001 the group admitted Uzbekistan, renamed itself the Shanghai Cooperation Organization, and broadened its objectives to include interregional economic cooperation, trade, and investment. In 2004 the six member states established a permanent secretariat in Beijing and a regional antiterrorism center in the Uzbek capital, Tashkent. Mongolia was granted observer status in 2004, followed by Iran, India, and Pakistan in 2005(Pabst, 2009).

Later on it became clear that the foremost objective of the two key members-China and Russia-was to secure their strategic interests and to insulate the region from the negative influences of the Afghanistan and Pakistan-inspired religious extremism and terrorism. Since 2002 some SCO countries have held joint antiterrorist exercises along their shared borders. More significant, in 2007 units from all six members participated in a collective military exercise that started in the Chinese northwestern Xinjiang region and ended in the Russian Urals. The SCO has not only forged links with CSTO<sup>1</sup>, but it also has set up the SCO-Afghanistan Contact Group for the purpose of building joint counteraction against terrorism, illegal circulation of narcotics and organized crime(Singh Roy, May 29, 2009).

Gradually it became a powerful grouping which has acquired a regional anti-terrorism structure and has sufficient resources to fight terrorism, separatism and extremism in Eurasia. It has created a joint mechanism to counter threats to regional peace, stability and security and to strengthen cooperation in fighting drug trafficking and illegal

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<sup>1</sup>. Collective Security Treaty Organization

migration(Narain Roy, September 15, 2007).

However, a careful analysis of developments within the SCO indicates that over the years its focus has shifted from settling border issues to security and now to economic cooperation. Of equal geopolitical significance is SCO's project to form a body charged with defining a common energy policy, to upgrade political relations to reflect the growing strategic importance of the organization, and to create closer links with other transregional economic and political bodies such as the UN, the EU, the World Customs Organization, the Commonwealth of Independent States (CIS), the Association of Southeast Asian Nations (ASEAN), and the Eurasian Economic Community (EurAsEC). (Dushanbe Declaration of Heads of SCO Member States, August 28, 2008) It has also gained observer status in the UN General Assembly.

In fact, since 2004, the SCO's influence and role has been growing in the Central Asian region and its activities are significant in terms of making the international community take notice of this regional grouping. Trade among SCO member states has made headway during the past decade. Trade between Uzbekistan and other SCO members reached 42.1 per cent of the country's total foreign trade in 2006. In Tajikistan, the ratio was 36.6 per cent that year. Sino-Russian trade hit \$55.45 billion in 2010, five times higher than in 2000. China now is Russia's top trade partner. China's trade with SCO members in Central Asia has kept an average annual growth rate of about 40 per cent. In 2010, the trade volume was \$28.52 billion, 14.81 times higher than it was in 2000(Mingwen, August 11, 2011).

Overall, it can be concluded that the SCO has emerged as an important factor in the Eurasian security architecture. Today, the SCO has expanded to include South and West Asian countries within its fold.

While the SCO represents a major development in the strategic landscape of the Central Asian region, the inclusion of India, Iran and Pakistan as observer states in the SCO mechanism suggests that it is gradually expanding into the wider region. In the next steps it is expected that Sri Lanka and Belarus will become dialogue partners of the SCO. It would therefore be appropriate to rename it as the 'Asian Cooperation organization', if it wishes to emerge as a significant Asian multilateral body seeking to play a greater role in the Asian Region.

**An Outlook to the Energy Cooperation Attitudes in the SCO Region**  
A huge energy cooperation network now stretches from the west to the east of the SCO region. The SCO started to delve into the energy sphere in 2004, when members adopted an action plan that established a basis for cooperation between the organization's three energy-producing states (Russia, Kazakhstan and Uzbekistan) and the three consumer countries (China, Tajikistan and Kyrgyzstan). During the Moscow Summit in October 2005, members expressed an intention to promote joint energy projects. Then, in November 2006, Russian officials suggested the idea of creating an "Energy Club" when Vladimir Putin proposed to set up a mechanism that would unite energy producers, consumers and transit countries. Russia's initiative was supported by other members. Kazakh Prime Minister Danial Akhmetov said, "I believe that in the future we will focus on issues related to energy security. Development and implementation of this program, an energy strategy and an energy club are fundamental tasks for our heads of government"(Tomberg, September 20, 2006).

Energy security also topped the agenda of the summit meeting in Kyrgyzstan in August 2007, when SCO members agreed to establish a

unified energy market. The idea was to make the oil and natural gas of energy-rich states available to energy-deficient states for their development. President Putin had been working behind-the-scenes to create an energy club emphasizing the need for greater energy cooperation that would give a "powerful impetus" to regional projects among the SCO countries. As he said, "I am convinced that energy dialogue, integration of our national energy concepts, and the creation of an energy club will set out the priorities for further cooperation" (Narain Roy, September 15, 2007).

The participated leaders in Bishkek Conference presented an integrated policy in the field of energy cooperation. In his quest to diversify Kazakhstan's export markets, Nazarbayev said in Bishkek, "The draft Asian energy strategy envisions the establishment of an SCO energy agency, which would be a type of 'brain center' and database, while transactions on the market for energy resources could be made through an SCO energy bourse." (Russian News Room, August 16, 2007) He also said that forming an oil and gas club was one of the pivotal ideas for the SCO, as the existing pipeline system linking Russia, Kazakhstan, Central Asia and China, could serve as a basis for establishing a uniform SCO market. Putin endorsed Nazarbayev's calls, stating, "I am sure that the initiated energy dialogue and accompanying national energy strategies as well as the establishment of an energy club will set the priorities for our further cooperation" (Daly, August 22, 2007).

Simultaneously, Iran's president, present as an SCO invited observer, reiterated his proposal to hold a meeting of SCO energy ministers, remarking, "I suggested last year that a meeting should be held between oil and gas ministers of SCO member states to optimize cooperation in transportation, prospecting, development and refining. As before, Iran is

ready to organize such a meeting" (Daly, August 22, 2007).

The following year Kazakh Prime Minister Karim Massimov speaking in reference to an impending meeting of SCO energy ministers and in affirming that "the existing system of pipelines on the SCO space connecting Russia, Central Asian states and China is a serious basis for the establishment of an SCO unified energy space," said: "The projects on the establishment of a unified energy market and the SCO common transport corridor could become bright examples of the global approach to defining the forms and mechanisms of cooperation" (Rozoof, May 29, 2009).

This process continued and in the summit session of SCO in Beijing in 2009, Russian Prime Minister Vladimir Putin reiterated a proposal that Shanghai Cooperation Organization member states form an energy forum. "Energy traditionally holds a key position on the global agenda, which prompts me to remind you of Russia's proposal to set up a permanent mechanism for dialogue on the issue, a SCO energy club or forum," Putin said. He also said an informal exchange of opinions could promote energy cooperation in the region (Mingwen, August 11, 2011).

Generally, it seems that Russia's initiative to set up the Asian Energy Club will serve as a mechanism to unite energy producers, consumers and transit countries. Apart from Russia, these are China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. They are already implementing several bilateral and multilateral energy projects, such as oil and gas exploration, production and shipment. According to the SCO General Secretary Muratbek Imanaliyev, the energy club principles are being developed on the basis of the existing elements that are employed in the bi- and tri-lateral trade and economic cooperation agreements within the SCO. "In the zone of our attention are such energy projects as the

Turkmenistan – China gas pipeline since it goes through the SCO countries, and the pipelines from Kazakhstan to China and from Russia to China. And we pay priority attention to these projects,” he emphasized. (Mingwen, August 11, 2011) however, he did not make a clear that while the projects which are built by investors who have carried out feasibility studies, what kind of mechanism by the SCO could be sought.

Indeed, within the organization not only world leading hydrocarbon producers are represented, but also their biggest consumers. In 2010, China imported 18.5 per cent of its crude oil from the SCO region (from Iran 8.8 per cent, Russia 5.9 per cent and Kazakhstan 3.8 per cent). In the field of importing natural gas, China's first import natural gas pipeline was the Central Asian Gas Pipeline (CAGP), which spans 1,130 miles and bring natural gas imports to China from Turkmenistan, Uzbekistan, and Kazakhstan. In March 2006, CNPC officials also signed a Memorandum of Understanding with Russia's Gazprom for two pipeline proposals, one from Russia's western Kovykta gas field to northwestern China. A second proposed route, called the Eastern pipeline, would connect Russia's Far East and Sakhalin Island to northeastern China. China and Kazakhstan are the forth and the thirteenth oil importers from Russia.

India also imported 11 per cent of its consumed oil from Iran in 2010. India and Pakistan's natural gas import demands are expected to increase in the coming years. Although a variety of economic, political and security issues have delayed a project agreement for the Iran-Pakistan-India (IPI) Pipeline, however, the importance of this project for the natural gas consuming countries makes it possible to be realized in future. India and Pakistan also has worked to join the Turkmenistan-

Afghanistan-Pakistan Pipeline (TAP or Trans-Afghan Pipeline). In Central Asia, while Uzbekistan imports oil from Kazakhstan, it sent over half of its natural gas exports to Russia and the remainder to neighboring states such as Kazakhstan, Kyrgyzstan, and Tajikistan in 2010. Uzbekistan is also a transit country for Turkmenistan's gas exports to Russia and China (EIA country analysis briefs, 2010).

As a result, the SCO could represent a platform, where the member states should have a possibility to substantially discuss on regular basis the organization's energy strategy, joint implementation of projects in the sphere of hydrocarbons exploring, production, processing, and transportation.

As said by Leonid Moiseev, Special Representative of the President of Russia for SCO affairs, "This club or forum – no matter how it is called – can become a brain and information trust, which would contribute to coordination of long-term programs in the sphere of the fuel-energy complex. It could in perspective elaborate common strategic guidelines, help to create general infrastructure, which should serve to implementation of joint projects, as well as persist in its position in foreign economic policy. And it is reasonable at that to involve in this mechanism's work the SCO observer states too" (Krans, October 28, 2009).

**Table No. 1**  
**SCO's Oil Reserves, Production and Consumption at End 2011 (Share of Total)**

		Preserve	Production	Consumption
1	China	0.9	5.1	11.4
2	India	0.3	1	4
3	Iran	9.1	5.2	2.1
4	Russia	5.3	12.8	3.4
5	Kazakhstan	1.8	2.1	0.3
6	Tajikistan	-	-	-
7	Kirghizstan	-	-	-
8	Uzbekistan	-	0.1	0.1
9	Pakistan	-	-	0.5
10	Afghanistan	-	-	-
11	Sri Lanka	-	-	-
12	Belarus	-	-	0.2
13	Mongolia	-	-	-
14	Total	17.4	26.3	22
15	World	100	100	100

Source: BP Statistical Review of World Energy, June 2012

**Table No. 2**  
**SCO's Natural Gas Reserves, Production and Consumption at End 2011**  
**(Share of Total)**

		Preserve	Production	Consumption
1	China	1.5	3.1	4
2	India	0.6	1.4	1.9
3	Iran	15.9	4.6	4.7
4	Russia	21.4	18.5	13.2
5	Kazakhstan	0.9	0.6	0.3
6	Tajikistan	-	-	-
7	Kirghizstan	-	-	-
8	Uzbekistan	0.8	1.7	1.5
9	Pakistan	0.4	1.2	1.2
10	Afghanistan	-	-	-
11	Sri Lanka	-	-	-
12	Belarus	-	-	0.6
13	Mongolia	-	-	-
14	Total	41.5	31.1	26.8
15	World	100	100	100

Source: BP Statistical Review of World Energy, June 2012

**The Challenges Confronting Energy Cooperation in the SCO Region**  
Although the SCO has achieved steady development during the past decade, it remains a young regional organization. It still faces tough challenges. Here we will do a brief review of the main challenges that the SCO has faced in three internal, regional and international levels.

#### **A. Internal Challenges**

It is an undeniable fact that following the collapse of the Soviet Union,

most of the Eurasian countries' economies weakened as regional trade collapsed. Throughout this period, religious and cultural differences also have often created the ethnic, religious and sectarian conflicts in the region. Terrorist and extremist forces have also used these religious and cultural differences to incite disunity and manufacture turmoil. (Guang, 2007) On the other hand, different separatist groups in the region have tried to challenge the powerful central governments in most of the Eurasian countries. The tyranny governments in these countries also have faced several democratic movements against the long standing economic corruption and political dictatorship.

The lack of open economic markets in the SCO region also plays an important role in decreasing the suitable situations for establishing an enduring coalition in the field of economic collaboration, particularly energy cooperation.

Generally, the events have occurred during last two decades in the region, have prepared an unstable and shaky situation for the ruling governments in the SCO region. These realities not only have decreased the legitimacy of their decisions in both external and internal affairs, but make the long term and huge amount of foreign investments in the field of energy exploration and transformation insecure.

### **B. Regional Challenges**

Considering the complex relations among all the Eurasian powers, longstanding bilateral conflicts and contradictory alliances, more conflicts could be brought to the negotiation table in the event of the SCO's enlargement. From this perspective, it is hard to see how the SCO could provide a truly multilateral trade framework considering that all regional initiatives so far, e.g. the Economic Cooperation Organization

(ECO) and the Eurasian Economic Community (Eurasec) have remained ineffective.

Despite the necessity of cooperation in the economic sphere, the fact remains that long term economic cooperation has weak links in Eurasia. Therefore, economic cooperation within the SCO framework is likely to take more time. (Singh Roy, August 22, 2008) In fact, the SCO member countries that export oil and gas are so far not only partners, but also rivals on the promising markets in East and South Asia. Furthermore, we should not forget such an important factor in the SCO development as competition between its largest founders, Russia and China. Despite recent friendship between Russia and China, there are serious concerns within the higher levels of Russian decision-makers about China's increasing political, economic and military growth and its implications for Russia in its backyard in Central Asia, West Asia and the Asia Pacific region. Russia has been trying to maintain the Central Asian states within its orbit and China has been reluctant in letting additional states into its strategic interests in Central Asia. China has been obviously increasing activity in the region. Chinese companies' efforts to get a foothold in the energy sectors of Turkmenistan, Kazakhstan and Uzbekistan are beginning to threaten Russia's position in Central Asia based on monopoly on export gas pipelines to Europe.

On the other hand, Central Asian SCO members are paradoxical about conducting win-win economic and trade cooperation with China. Although China's giant market and huge investment potential and Central Asian nations' underdeveloped manufacturing industry and investment shortages could form a complementary framework for cooperation, Central Asian members are often uncertain to deepen and expand cooperation with China, worrying about excessive economic dependence

on China. (Mingwen, August 11, 2011)

Enlargement also poses a problem to the SCO. Although a protocol of accepting new member states was formally signed in 2010, SCO members have yet to reach a consensus on which applicant should be accepted first. If this problem cannot be solved soon, it will negatively affect the SCO's reputation. However, the hostility between India and Pakistan stands out as the most serious obstacle to a greater regional dialogue including all the actors. Judging by the experiences of the South Asian Association for Regional Cooperation (SAARC) where the conflict between India and Pakistan has brought the entire organization into deadlock, both China and Russia will probably think twice before admitting these countries, especially as the Central Asian member states have the destabilizing effect of Pakistan's support of the Taliban fresh in mind.

The hostility between India and China does not facilitate things either. Although bilateral relations have improved since the 1962 Sino-Indian War, tensions still exist. Here India's active lobbying for keeping China out of SAARC may affect China's position about India's membership in SCO. (Niazi, 2006, 6) China's rapid development of infrastructure in Central, Southwest and South Asia is also feared in Indian policy-making circles to be a Chinese strategic encirclement of the South Asian subcontinent.

On the other hand, concern over relations with the USA is also limiting India's participation within the framework of the SCO. Carrots from the USA in assisting India with civilian nuclear technology as well as repeated statements of the bloc-like nature of the SCO from the USA is hindering a more extensive Indian participation in SCO.

As a result, considering the strategic interests involved in energy

projects it seems that these states will find it difficult to cooperate in the field of energy in near future. In fact, within the energy sector it may also seem illogical why China and Russia would give an advantage to India and Pakistan to participate in the competition over Central Asian energy resources. Regarding these matters, it will pose major difficulties in initiating a dialogue among all the states in the SCO region.

### **C. International Challenges**

It seems that Western considerations focus on the SCO increasingly becoming a mechanism to oust the United States and its Western allies from Central Asia. The most obvious challenge to US and European interests in this field is in terms of balance of power. From the US and EU point of view, the SCO countries may raise their bargaining positions vis-à-vis the West when speaking in concert. Based on their concerns, it should also be acknowledged that it would be wrong to assume that the SCO is a ‘neutral’ organization without any agenda besides promoting all of its members’ interests. Given the arms transfer makes up a large portion of the trade between China and Pakistan, Russia and India, Iran and Russia, Iran and China and China and Russia this may pose significant challenges to US and European interests in the long term as these states’ scientific competencies, technological know-how and economic growth promote defense modernization(Norling & Swanstrom, September 2007).

Therefore Wary of Moscow’s and Beijing’s transregional ambitions, Washington has launched new diplomatic initiatives centered on creating a “Greater Central Asia” that would revolve around treating South Asia and Central Asia as a single unit(Pabst, 2009).

By the way, the Energy Club that has not been officially established

yet is already perceived in the West as a basic model of Oriental gas OPEC. Given the high price of fuel in recent years, international observers have started to wonder whether the SCO's energy-cooperation initiatives actually pose a challenge to Western economic interests. Taking into consideration that the SCO members and observers do in fact control about 20.2 per cent of world's oil and 44.2 per cent of natural gas reserves (BP, June 2011), with Russia accounting for the single largest gas reserves on the globe, the ability of the SCO-coordinated activities to move markets would seem considerable.

It was specifically Moscow's proposal to create an Energy Club that caught the attention of Western policymakers. Some saw the announcement as an attempt by the SCO to move from only coordinating its participants' national energy policies to actually setting up some kind of energy cartel. (Raith & Weldon, April 24, 2008) This causes obvious concerns in the West, which is actively trying to weaken Russia's and China's influence in this region, while simultaneously increasing its own expansion there.

Generally, some hostilities appeared between two sides during last years and the United States application for observer status in the SCO, but was rejected in 2006. (Hiro, June 16, 2006) & (Bhadrakumar, April 18, 2006) following that, at a wide-ranging State Department briefing, Richard Boucher, US assistant secretary of state for South and Central Asian affairs, announced US's reluctance of cooperation with the SCO: "We've criticized it [the SCO] when they went wandering into political areas. We've criticized it when they started making pronouncements about other countries, like us ... we're not looking for any formal association with this organization." (Raith & Weldon, April 24, 2008)

However, it is expected that Western countries stay engaged with the

SCO on the political, as well as the economic level. In recent years, the Obama Administration has called for more regional input into and burden sharing for complex problems such as Afghanistan, and agreed to U.S. participation at a SCO-sponsored international conference on Afghanistan in 2009. (Boland, June 20, 2011) In January 2010, Secretary of State Clinton, in remarks on Asian regional architecture in Hawaii, stated that “we have also seen new organizations, including the ASEAN Regional Forum, ASEAN+3, the Shanghai Cooperation Organization; we hope that we will be able to participate actively in many of those,”(Clinton, January 12, 2010) raising the possibility of future U.S.-SCO engagement.

#### **The Opportunities of Energy Cooperation in the SCO Region**

There is no doubt that the SCO is partly a vehicle for the permanent members and observers to justify and legitimize their own interests in the Eurasia region. It seems that there is a need to realize the benefits involved with increasing engagement across the East Asia/Central Asia/and South Asia regions. Undoubtedly, greater interdependence could raise the costs of conflicts among the Eurasian states. Any development promoting increased regional dialogue about trade and other issues may have conflict-preventive effects in this conflict prone region.

Obviously, the SCO’s move into the trade sphere should not primarily be assessed in terms of its ability to provide a regulatory multilateral framework of trade, similar to that of the European Union’s common market or the North American Free Trade Association, but as a way to coordinate and discuss such issues. Considering the growing complementarities between India, Pakistan and China on the one hand

and Russia, Iran and the Central Asian states on the other in the energy sector, there is truly a need for a multilateral forum where energy infrastructure and trade and transit coordination may be discussed. The move of the SCO into the trade sphere and its engagement with Iran, India and Pakistan is a sign of the growing trading ties within Eurasia that has consolidated itself in the post-Cold War period.

The trade between the SCO members in this region has a long history. Through the Kuchan, Roman, and Persian empires trade have been conducted from the Indian Ocean stretching as an arc from the Rimland of the Indus basin to the Heartland of Central Asia. (Starr, 2005) What today stretches up north of the Pamir mountains, into the Fergana Valley, to Khorgos in the East and the Caspian in the West was a zone of strong economic interaction which may see its economic revival today.

During Soviet time cross-border interaction and trade between Central Asia, Afghanistan, China, and Iran were minimal. In addition, before Deng Xiaoping's leadership in the 1970s and the opening up of the Chinese economy, China's foreign trade was similarly limited and the same applies to the period of Nehruvian socialism in India. A century of almost constant instability and conflict in Afghanistan, more than 60 years of conflict between India and Pakistan, and border disputes in the entire SCO region have had detrimental effects for these economies.

The disintegration of the Soviet Union, and China and India integration into the world economy have however significantly altered the opportunities for cross-border trade in Greater Central Asia and with its neighbors. Trade potential between China, Afghanistan, India, Pakistan and Iran, the five Central Asian nations, and all the way to Western Europe is considerable. A major driver for this is growing energy needs in India, Pakistan, China and enormous energy supplies in

the Caspian, the Middle East, and Russia that would be led to significant complementarities between the SCO economies (Norling & Swanstrom, September 2007).

However, it is important to consider that to date, trade, energy and economic matters are mostly settled bilaterally on the sidelines of the heads of states summits and the regional coordination aspect is often neglected. Paradoxically, the bulk of these deals seem to be between the SCO members and observers. This indicates that a greater regional dialogue including not only China, Russia and Central Asia, but also its neighbors in South Asia is needed. Even if the economies of the current SCO members are already complementary, the inclusion of Iran, India and Pakistan into a greater dialogue would increase the ability to discuss matters of concern and bridge the South and Central Asia divide.

From this perspective, SCO can play an important role in confidence-building and conflict prevention in Eurasia. For the first time since partition of British India in 1947 into India and Pakistan (India, Pakistan and Bangladesh in 1971) the basic interdependence between India on the one hand, and the states of Afghanistan, Pakistan, Iran, Central Asia, China and Southeast Asia on the other, seems to be restored.

As mentioned before, there are some arguments that the SCO may face the same fate as the SAARC if India and Pakistan join it. There are however some differences between these two cases. The problem with the SAARC has been that India's absence has postponed the heads of state summits, which has essentially placed the whole organization in stalemate. A SAARC summit without India would not have much legitimacy considering the weight of that country. In contrast to the SAARC, the SCO can have its deliberations even if India or Pakistan do not participate the summit.

It is also important to include Afghanistan into the regional economy, not least for the former post-Soviet states. If this could be achieved, this would mean increased access to ports in Pakistan at Gwadar and Iran at Bandar Abbas and Chah Bahar for Central Asia giving important outlets for products to the world market. India and Pakistan will also get a further source of energy and an important diversification away from a reliance on the Middle East.

On the other hand, as the successful restoration and reconstruction of Afghan society and infrastructure is a key component in a dynamic South and Central Asian market, Afghanistan is going to be further integrated into the SCO structure. There has been increasing talk recently in Europe and the United States about the possibility and even necessity of a dialogue between the SCO and NATO. Common approaches to combating terrorism and normalizing the situation in Afghanistan could well become the basis for boarder cooperation with NATO. The SCO is particularly valuable here because some of its member-states and observer countries carry a great deal of weight with individual Afghan ethnic groups (specifically: Tajikistan, Uzbekistan, Iran, Pakistan, and India). These influential external players could motivate those groups inside Afghanistan to join internal conflict resolution talks (Lukin, July 21, 2011).

Moreover, for the first time since the 1960s China has shown a more moderate and objective position in the conflict between India and Pakistan. Although China still is, and has been, Pakistan's main supporter in the last 50 years, ties between China and India are improving (Deepak, 2006, 49).

Generally, regional cooperation in the SCO region could bring fruitful achievements for the different partners although their interests are not

overlapped in all aspects. For China, the SCO provides a perfect political and economic mechanism to contain the Uighur separatist movement, access to Central Asian energy resources and economic benefits. The SCO provides China an opportunity to regain its strategic space which had started waning post 9/11 with increasing US influence. For Russia, the SCO provides an opportunity for strengthening its political, military and economic ties with the Eurasian countries and for engaging China economically while at the same time balancing US influence. For Central Asians, the SCO provides greater maneuvering capacity to balance the major powers and gain economic and military aid. Central Asian countries are looking to reduce their vulnerability to external powers. Their responses to this new unfolding situation is driven more by their need for economic support and investments in various sectors, and fear of increasing political opposition, than by the fear of great power rivalry and hegemony (Singh Roy, July 4, 2006).

And in the field of energy, while the three countries of Central Asia, including Kazakhstan, Uzbekistan and Turkmenistan, along with Iran and Russia, are considered as the major oil and gas producers in Eurasia, other members of the organization, such as China, India, and Pakistan, are among the largest energy consumers in the world. Regarding this reality, organizing a network of cooperation among energy producers and consumers in the Caspian region is achievable through multilateral cooperation, intra-organizational investments and providing energy transportation network between these countries. It can also allow the participated countries to expand energy cooperation through the formation of a consortium of SCO's national oil companies.

### **The Future Perspective of Energy Cooperation in the SCO Region**

While it is attractive to explain the objectives of the SCO countries in terms of balance of power alone, this often neglects the fact that the organization is more than an expression of power politics. Increased interactions across Eurasia in all directions increases the potentials of the SCO states to find new markets and Central Asia will find itself in the middle of this trade network. This is not to say that these growing arrangements in Eurasia do not cause challenges to Western interests. But the benefits should also be recognized. The increased interdependence and regional cooperation in Eurasia will raise the costs of conflicts and provide a climate encouraging to cross-border interactions, which in the end will benefit Western firms as well.

During recent years the diversity of interests of the member countries has prepared a suitable ground for the SCO to keep its neutrality position in the regional competitions between the Eurasian powerful rivals. For instance, while the Astana summit in 2005 was important for its declaration asking the United States to provide a time frame for the withdrawal of its military forces from the SCO territories, the Dushanbe summit in 2008 was held against the backdrop of Georgian crisis and speculations about the start of a ‘new cold war’ between Russia and the US.

Actually, since the six SCO members do not share a common ideology directly aimed against the West, there is no reason to be overly concerned about the organization, which is clearly not a transformed version of the Warsaw Pact. In fact, this is no rerun of the nineteenth- or twentieth-century “Great Game” among empires. Nowadays, sovereignty and legitimacy are not monopolized by states but are widely—although of course unequally—distributed among a wide range of actors, including

multinational corporations, religious groups, non-governmental activists and regional and international organizations operating on all layers of the complex matrix of 21st-century power (Raith and Weldon, April 24, 2008).

Cooperation in the SCO has discarded Cold War thinking, providing a good example of coexistence among nations of different religions and cultures. Member states include believers of Taoism, Buddhism, Eastern Orthodox Christianity, Hinduism and Islam.

With China and Russia, the SCO occupies two of the five permanent UN Security Council seats. The organization is suspended to play an increasingly important role in promoting regional economic development and cultural cooperation as well as guaranteeing regional security. In the future, it will continue to help further economic development in member states and the region in general. With the SCO's increasing influence in the past years within the Eurasian region, it is expected to play an important role in the future as well. The SCO's geographical proximity to Afghanistan particularly, with the Central Asian countries, will require that neighboring countries engage Afghanistan bilaterally as well as through the SCO in specific areas like controlling drugs and terrorism and energy transportation.

The SCO is of strategic significance to both China and Russia. It is also important for Central Asian member states, not only because China is one of the major investment and trade partner of them. The SCO also provides them a best platform to conduct independent diplomacy and advance economic growth. The SCO region is significant for China, India and Russia with respect to dealing with threats to security posed by non-state actors such as terrorists, separatists, and drug-traffickers. The three could also cooperate with regard to energy resources, transport and

investment in the region. However, competition could not be ruled out and hence it was necessary to structure their interaction in terms of ‘cooperative competition’ and well-coordinated trilateral interaction, for example, by each agreeing to specialize in a particular sphere or sector.

For balance of power in the region, Russia would need India and India would require the support of Russia in Central Asia and the AfPak region. China has always tried to counter Indo-Russian security cooperation by forming strategic military ties with Pakistan and this trend is likely to continue in the future as Beijing tries to maintain the balance of power in Southern Asia. In fact, the relationship between China and Russia is a typical one between two great powers - on one hand, pragmatic considerations urge both sides to co-operate; on the other hand.

With these regards, the SCO's international position will continue to be promoted by Russia and China, as it suits their common interest in building a multi-polar international system in the framework of regional integrations. At the same time, both states use the organization to balance each other's political and economic weight in the region. The strategic triangle of Russia, India and China (RIC) can be used by Russia and India to engage China constructively. Given the centrality of China in international politics, India and Russia can keep China in a much more constructive way under the RIC mechanism.

### **Conclusion**

However, it is still noticeable that although there is widespread belief that the future of SCO will depend on how successfully it is able to deal with the issue of economic cooperation in the Eurasian region, one can count various reasons for the lack of certain results. The major shortcomings

for the SCO have been mainly the absence of political will and confidence; difference in economic status of member states; cultural differences and domestic challenges of Eurasia countries. In addition, opposition from the countries that are left out has been a major source of weakness. Finally, lack of clear direction for cooperative activities has prevented it from moving forward.

Therefore, the future of SCO would depend firstly on how it addresses the contradictory interests of member states and other regional and extra regional players in the region. Secondly, how cooperation and mutually advantageous equality would serve as the basis of the relations among member states and states with observer status. Thirdly, the question of expanding the organization would determine the scope and role of the SCO. Fourthly, the SCO's success in economic co-operation would be conditioned by the fear of smaller SCO members, in that smaller states might fear that their resources would become vulnerable to exploitation by larger members. If the SCO has to emerge as a successful regional organization, it should develop into an effective multilateral organization to address security and economic challenges in the region on the basis of mutually beneficial terms among its members.

In the field of energy cooperation, based on the mentioned arguments in this article, it seems that cooperation for energy production and security will increase within the SCO so long as it meets the political and economic interests of its member states. However, a closer look at the actual state of the SCO's cooperation mechanisms make it clear that the group currently lacks the ability to create an energy or natural gas cartel. The supposed Energy Club probably will be little more than a consultative body to discuss already existing cooperation. In fact, today the establishment of a cartel is very unlikely. Because of differences in

their energy interests, the SCO member states would prefer setting up a coordination center rather than a cartel based on producing countries' common policies.

It also should be considered that it is still a big question whether SCO countries are willing to redefine their energy security on a regional (or multilateral) framework.

However, Energy co-operation could be a foundation from which the region could form an integrated community using the basic framework to promote market efficiency and accelerate liberalization across the region. Besides, more energetic efforts by the SCO members in implementing joint economic and energy projects could strengthen security in Central Asia. Creation of the SCO Energy Club in any case must contribute to closer cooperation of energy resources producers, their consumers and transit countries. The realization of this idea can transform SCO into a self-sufficient energy system both in global and regional contexts.

At a time when intense competition for access to the world's natural resources is continuing and is likely to increase, enhanced energy linkages and associated ties can contribute to the development of a co-operative mechanism involving East Asia, South Asia, and Central Asia - exactly the opposite of the "Great Game". However, if these players are unable to manage wisely their internal dynamics and organize their interdependence rationally, the mutual efforts will not create any real results to remove the sense of isolation each may feel and influence them that uncooperative energy policies would work against their own best interests in the longer term (Christoffersen, 2004).

In many respects, chaos in Eurasia stems from poverty and despair. If these issues will be resolved within the SCO on a parity basis, for instance, joint projects implemented in the energy and economic spheres,

then tension in the region would gradually lessen and fall short of the levels where extremist groups could flare up with armed acts.

And finally, it can be argued that it is too early to expect convincing results from the SCO as it would need a time frame to mature and is still in the process of defining its political characteristics and functions. Maybe the SCO members should act, as a Chinese aphorism says “from the simple to the complex”.

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