The Shanghai Cooperation Organization (SCO) was created in 2001 with the objective to strengthen regional cooperation between China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. With Central Asian states and Russia among the world's largest gas and oil producers, it was only a matter of time before China, as the world's fastest growing energy market, would turn to the SCO as a platform for augmenting its own hydrocarbon oil imports from this region. Nevertheless, international policies and politics have often differed between SCO member-states and until recently hydrocarbons' transportation networks linking Central Asia and China remained weak necessitating the bulk of China's imports from distant providers in the Middle East and East Africa.

The SCO is primarily an organization promoted by China in order to fulfill its energy objectives which illustrate China's (PRC's) geostrategic dilemmas. If Beijing has been the main benefactor of the SCO, its partners have not been marginalized, and have also benefited from the relationships the organization engenders. Further the SCO could develop and expand even further would all its members recognize that energy-related projects are perhaps the most important raison-d'être of the organization.

Background: the international context

If economic reforms have transformed China from a second-rate communist economy into the world's most important industrial actor, they have also made this new economic power extremely dependent on two specific variables: energy and political stability. It is a fact that China's gigantic economy absorbs a nearly incomprehensible quantity of hydrocarbons which will only accelerate in the future.

Total energy consumption: US and China (Million tons of oil equivalents)

YEAR		
UNITED STATES	**CHINA**	
2000	2270	1107
2001	2228	1104
2002	2254	1193
2003	2260	1356

2004	2306	1576
2005	2317	1707
2006	2295	1865
2007	2333	1977
2008	2281	2131
2009	2169	2265

Source: International Energy Agency

Chinese policy makers anticipate that the country's economy will continue to grow spectacularly over the next 20 years. A recent study has pointed out that in 2011 the country consumed 12.9% more crude oil, 18.2% more natural gas and 13.1% more electricity than in 2009. Not surprisingly, China's recent foreign policy has placed the need to secure greater access to foreign oil and gas sources at the center of its international strategy. The PRC's problems mainly originate from the fact that contrary to its main Western geopolitical rivals, China does not benefit from either a historic or military presence in the regions from which it imports most of its oil and gas. This makes China's energy security highly dependent on a favorable international geopolitical order that it does not master. Its relations with the US remain conflict-ridden and China still generates mistrust and frustration among other world powers. The absence of civil liberties, political accountability and an open political system, as they exist in liberal democracies, have often triggered public opposition to the PRC's policies. Its reiterated defense of the North Korean regime perfectly illustrates an international situation in which China's interests directly clash with those of the US and its allies while its "national unification agenda" with Taiwan is thwarted by US support for the island's independence. Paradoxically, while accepting Taiwan's *de facto* independence, acting more forcefully against North Korea's nuclear ambitions, and granting liberal democratic rights or self-determination to minority groups would certainly ease China's relationship with the West, these ideas remain non-starters for China's senior leadership. Recognizing Taiwan's independence or granting democratic rights might, as lawmakers fear, may lead to an intensification of political separatism and disrupt the Communist party's ability to maintain economic growth and thereby threaten its political legitimacy both within and without the country.

In other words, China appears to be caught between a rock and a hard place. It can presently only rely on the world's other powers to guarantee the stability of energy producing regions and the hydrocarbons' trade routes on which its entire economy – and thus its political strength – depends. Nevertheless, Beijing simultaneously takes the risk of provoking the anger of these stability guarantors by pursuing policies that it perceives as vital to its own internal stability. Realistic or not, Chinese policy makers readily fear the ability of the US and its allies to block its access to the Taiwan, Malacca and Hormuz straits - China's energy supply routes– as a means to influence its policies. With half of its oil imported from the Middle East, and almost another

third from East Africa, an energy embargo would simply shut down the country's economy. An ambitious, diversified and successful energy strategy is therefore vital for Beijing to keep growing its world power status and defend its international and national policies without fear of direct consequences over its development path.

The strategy

Not surprisingly, the PRC's leadership has over this last decade, used its significant economic resources to increase its diplomatic presence in energy exporting countries. China's relationship with OPEC producers had been historically weak and it only became a net oil importer for the first time in 1993. But this relationship has changed dramatically. Its willingness to replace the US as the world's first development partner now appears very clearly as the core of the country's foreign energy strategy and seems logical considering its incapacity to compete militarily. In fact Chinese policy makers have privileged the less onerous and faster option to strengthen their bilateral ties with energy exporting countries through direct funding and development aid – a strategy especially well adopted now that Beijing's main Western competitors are facing budgetary constraints.

With Western troops present on its Eastern and Southern frontiers China has, over the last two decades, also started to examine more closely the energy potential offered by its Northern neighbors. Not only does Russia and Central Asia represent a region with a weak American military presence, it also hosts the planet's most important gas resources and some of the world's remaining major oil fields outside of the Middle East. Encouraging greater cooperation with Central Asian states and Russia appears as an extremely promising strategy for the country, considering the dilemmas it faces. The need for China to adopt a more concrete strategy in the region has been furthermore exacerbated by recent geopolitical events. The post-9/11 conflicts in Afghanistan and Pakistan have favored the development of Islamist fundamentalism in Central Asia and raised concerns about the ability to protect pipelines and infrastructure across this region. The war against al-Qaeda and its allies has also dramatically increased the US military presence in a region which Washington had historically been excluded. Fearing both the spread of radical Islamism in its own Central Asian province of Xinjiang and being outflanked by the US elsewhere, an ambitious Central Asian policy has logically come to constitute the core of China's new energy strategy.

The SCO: China's Central Asian tool

China's growing need for hydrocarbons and its huge financial capacity have not yet fully blossomed into greater cooperation between Beijing and its Central Asian and Russian partners. China has become the region's largest energy buyer and local states' leaders have come to see the PRC as a more stable source of income than Western economies (and Russia itself in the case of Central Asian Republics).

Chinese Bilateral Trade: Central Asia

Country	Value of Imports from China (2008 USD)	Value o
Kazakhstan	9,825 million	7,727 million
Kyrgyzstan	9,212 million	121 million
Tajikistan	1,479 million	30 million
Uzbekistan	1,278 million	328 million

Source: China Statistical Yearbook

After decades of isolation in the middle of the Eurasian landmass, these young post-Soviet states have finally found a way to break away from Moscow's almost hegemonic control over the region's economy and its hydrocarbons. With its economy constantly growing, Chinese expansion in the region has been welcomed as a veritable alternative to traditional powers. Following the collapse of the USSR, China understood that the loss of Soviet subsidies and a waning lack of interest in the region by the West had made the internal situation of many Central Asian Republics extremely uncomfortable.

Beijing has thus played its development/investment cards by funding, not only refineries and pipelines, but also highways, railroads, improving electrical power plants, and exploiting other natural resources such as minerals and boosting trade relations. China also became the region's largest foreign investor and has capitalized on Central Asia's weak banking sector. By way of example, the Bank of China and the Chinese Industrial and Commercial Bank have opened branches in Kazakhstan. In 2009 China's banks agreed to make $10 billion in loans available to Kazakhstan, with half the sum used for the sale of MangistauMunayGas to the China National Petroleum Corporation (CNPC) and for the construction of the giant Beineu-Bozoi-Akbulak gas pipeline. The other half of the loan was used to fund the Development Bank of Kazakhstan. As a consequence, commercial relations with China in the region have increased spectacularly – often at the expense of Russia – since cooperation started increasing in the early 2000s, the balance of trade already being clearly to the advantage of China in bordering Kazakhstan and Kyrgyzstan.

Furthermore, within a context of growing global financial difficulties, China's increasing need for energy, and Russian and Central Asian companies' abilities to deliver important quantities of Central-Asian hydrocarbons, have set the basis for profitable partnerships between the two geopolitical giants despite Russia's dislike of China expanding into its own backyard. Both actors have recognized that their cooperation, in the fields of security and counter-terrorism, is vital to maintain the necessary security conditions for regional energy trade to develop. The spread of Islamism and democratic activism could put at risk future investments such as pipelines or refineries. Islamic movements – such as the Hizb-ut-Tahir and Jund al-Khilafah that call for the establishment of an Islamic Central-Asian caliphate – are well spread over the region; these groups have already carried out attacks against the region's energy infrastructure. If Central Asia, mostly populated by Muslims, was to fall in the midst of the War on Terror that currently devastates neighboring regions, the consequences could be detrimental to the region's stability and any form of trade. How could pipelines be built or transport be organized if roads and infrastructure became the targets of repeated terrorist attacks, as it is the case in Iraq or in Afghanistan?

Pipelines are a path to greater and more stable sources of revenue but cannot be built in a region where they would constantly be under terrorist threat. This situation explains why China has sought a multilateral strategy in the region, through the SCO, rather than favoring bilateral exchanges as it usually does. By stressing the need to cooperate on other regional energy-linked issues, such as security – a need that all regional actors have recognized – and while concurrently strictly respecting the sovereignty of all nations across the region, China has projected its energy agenda on a regional basis and has enhanced its partners' status in doing so as well. As a result, the SCO has managed, since its creation, to solve most border disputes between its members, reduced risks of regional conflicts and initiated successful economic partnerships.

The limits of Beijing's Central Asian Strategy

Despite its obvious financial attractiveness, Chinese expansion has not, however, only raised hopes among its SCO partners. As a matter of fact, the region's leaders have also expressed a common fear that China's financial aid might be a poisonous gift, that with this soft power, Chinese investments might lead to economic dependency and political vassalage. As a matter of fact, the region's leaders have often criticized the lack of diversification in China's investments and imports. The key accusation being that despite its developmental political rhetoric Beijing's involvement in the region's economic affairs has been disproportionately energy-related. As an example, more than a quarter of Kazakhstan's trade with China consists of oil while another third consists of natural resources such as gas and metals. In less than a decade China has already seized control of approximately a quarter of Kazakh energy fields. Similarly, Beijing has also shown interest in Uzbek gas deposits and has even convinced Kazakhstan and Uzbekistan to build a common pipeline, together with non-SCO Turkmenistan, in order to jointly sell their gas to its oil companies. The gigantic Sino-Kazakh pipeline, which will

connect the shores of the Caspian Sea to the border town of Dushanzi in Chinese Xinjiang, remains the country's largest investment in Central Asia.

With China's manufactured goods accounting for 92% of its exports to Central Asia and Beijing investing reluctantly in local industries, many in the region believe that China's investments simply go against Central Asian developmental interests across other industrial sectors. Despite some advantages such as a reduction in consumer prices, all seem nevertheless to fear the disappearance of their last national companies, incapable of competing with Chinese manufacturing, as Beijing refuses to invest in fields other than energy extraction, or more broadly infrastructure linked to raw materials extraction.

Exports of Central Asian Countries in 2007

Country		Export Value USD	Chief C
Kazakhstan	$66.6 billion	oil, gas, coal, metals, food products, wool chemicals, ma	
Kyrgyzstan	$1.7 billion	gas, hydropower, metals, textiles, food products, fertilize	
Tajikistan	$1.4 billion	oil, electricity, aluminum, textiles, food products	
Uzbekistan	$9.9 billion	oil, gas, metals, food products, textiles, machinery	

Source: CIA World Fact Book

As a result, distrust and apprehension often characterize Sino-Central Asian relations and the SCO's development consequently slowed over the last few years. China's effort to ally Russia to its proposal to expand the economic reach of the SCO illustrates this situation. Russia, as other world powers, distrusts Chinese expansionism despite the fact that the SCO was officially meant to be an organization to facilitate the exchange of security-related information and technologies in the region. Yet as a political observer recently noted, according to US estimates, Russia supplies China with 95% of its military hardware, including Kilo-class submarines and Sovremenny-class destroyers. Thus far, Russian officials have not viewed the build up of the Chinese navy as a direct threat to Russia; instead, they have seen it as a potential problem for the US. Nevertheless, with an agenda for the departure of US troops from Afghanistan set, Moscow now fears that China might take advantage of the situation to expand its influence in the region as an alternative to its own presence. Consequently, weapon sales have stagnated and technologies exchanges dropped.

Similarly, the SCO has also appeared less unified than China originally expected. Uzbekistan

and Kyrgyzstan, for example, granted the US and NATO, military bases - officially to support them in their fight against terror. They hoped that it would set the tone for new trade relations, helping them to develop sectors that neither China nor Russia had invested in. Uzbekistan's move was well perceived by the Bush administration, which sought to make Tashkent America's ally in the region. Promises to allocate greater development funds were consequently offered by Washington.

The SCO: a success?

Despite some setbacks since the SCO's creation, China has realized many of its objectives in the region. Uzbekistan's and Kyrgyzstan's moves to increase the West's presence in the region have been successfully countered by joint Russian-Chinese efforts. These two countries, concerned with similar security issues, succeeded in convincing their SCO partners to set an agenda for the departure of US and NATO troops. By demonstrating its common position on political independence and hydrocarbon transport and trade, China has effectively established the premise of an ambitious Central Asian, Western-free, energy partnership that has been often praised by the organization's leaders. As an example, Prime Minister Putin declared in his last visit to Beijing that Russia's new energy strategy would be redirected toward China and the building of an ambitious Eurasian energy partnership, involving SCO members.

As much as Central Asian nations and Russia distrust China they still welcome it as an ideal trading partner. Contrary to the West, Beijing does not embrace nor tie ethical issues to its pursuit of energy and trade. For example, in 2005 following a period of anti-government civil unrest in Uzbekistan, the Uzbek government asked its troops to fire on a crowd that was assembling in the city of Andijan. The army killed at least a hundred protesters, according to international media reports, and was roundly condemned by Western countries. Consequently, the EU and US decided to suspend their development aid and impose a weapons' embargo on the country. China, reacted by offering the country another investment package.

Under Chinese leadership the region has thus experienced relative political stability and has witnessed a spectacular economic boom. Russia, for its part, has benefited from Chinese investment in an expensive pipeline system from Eastern Siberia to the Chinese border city of Daqing, which will connect its hydrocarbon fields to the world's fastest growing energy market. Simultaneously, Beijing has also benefited from Moscow's allegiance to the SCO in countering Western, Japanese and South Korean proposals for the same project despite the fact that South Korea and Japan were willing to pay proportionally more for greater access to the same product.

Conclusion: perspectives for Chinese expansion in the region

As the SCO's most active promoter, China has been its main benefactor considering the success it has had in fulfilling some of its main geostrategic objectives. Concurrently, thanks to the SCO, an impoverished Russia and developing Central Asian states have also secured investment financing to extend their pipelines to the world's fastest growing energy market while avoiding partners that tie ethical considerations to the way of doing business.

While China calls for greater economic integration, its growing political presence has however also troubled these same partners. Prospects for the evolution of the SCO into a broader security or economic organization appear therefore limited. Nevertheless, prospects for greater Western economic and military involvement in the region seem to appear just as limited.

However, is the West the sole alternative to Beijing's partnership in the region? SCO members could also look to other regional actors such as Pakistan and Iran. Both of these developing countries share a similar aversion towards American interference in their internal affairs, and are situated along Beijing's energy highway. Iran's proximity to Central Asia would potentially allow China to connect, via Central Asia, access to Middle Eastern energy resources lessening its vulnerabilities associated with maritime energy transport. This would, without doubt, be unwelcome in Washington and the EU which have worked hard to isolate Iran due to its nuclear program. One may however wonder how far the US and its European allies would be willing to go to oppose such initiatives.

Through China, SCO members could in fact connect their gigantic energy reserves to other South Asian and South East Asian booming economies, even access the Indian market as Moscow seeks to do, while keeping Beijing first in the line and avoiding a Western stronghold over the region.

By extending its membership to other Eurasian, Middle Eastern and other Asian developing states, the SCO could be transformed into a Trans-Asian partnership and in doing so transform itself into a veritable Eurasian Energy Community free from Western influence.

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