

The Stagnation of the SCO

Competing Agendas and Divergent Interests in Central Asia

PONARS Eurasia Policy Memo No. 85

Alexander Cooley

Barnard College, Columbia University

September 2009

The Shanghai Cooperation Organization (SCO), comprising China, Russia, and four of the five Central Asian states (excluding Turkmenistan), continues to be a source of fascination and speculation. Western commentators remain divided over the organization's exact purpose, scope and potential relationship with the West. While some have dismissed the SCO as a "paper tiger," others have urged transatlantic policymakers to take immediate steps to engage the organization in order to avoid being left behind in the geopolitical competition across Central Asia.

Such urgent calls for Western engagement with the SCO are premature. The organization has yet to demonstrate a capacity to expand its activities beyond a limited set of security tasks. Most of its economic and regional integration initiatives remain unimplemented.

Contrary to the optimistic public proclamations issued at the SCO's recent summit in Yekaterinburg, Russia, the organization is currently stagnant. This memo examines two sources of this stagnation: the growing differences between Russia and China over the SCO's purpose and the institutional weaknesses of the Central Asian states that inhibit deeper regional cooperation. Together, these factors impede the organization's development into a more robust and multifaceted regional organization.

The State of SCO Evolution and Development

The SCO was founded as the successor to the Shanghai Five (China, Russia, Tajikistan, Kazakhstan, and Kyrgyzstan), who, in the late 1990s, successfully negotiated and finalized the long-disputed Soviet/Central Asian-Chinese border. With the addition of

Uzbekistan in 2001, the group changed its name to the Shanghai Cooperation Organization and broadened its agenda to promote regional cooperation on a wider range of security and legal matters. Soon after, the SCO adopted a mission statement focused on combating the “three evils” of terrorism, extremism, and separatism. The group also founded the Regional Anti-Terrorism Center (RATS) in Tashkent in 2004. The organization organized the first joint Russian-Chinese military exercises in 2005, with additional operations in 2007 and 2009.

The SCO grabbed Washington headlines during its Astana summit in the summer of 2005 by issuing a joint declaration calling for the removal of U.S. military bases in Central Asia. A month later, Uzbekistan evicted the United States from its facility in Karshi-Khanabad, prompting speculation that Russia and China had pressured Tashkent at the SCO summit. Though it later came to light that the declaration was issued at Uzbekistan’s initiative, with Russian backing, the Astana meeting framed the SCO as an anti-Western organization intent on countering U.S. influence in Central Asia.

Since then, the SCO has announced a number of new initiatives designed to expand the organization’s purview, including plans to create a humanitarian response mechanism to coordinate members’ responses to natural disasters and complex emergencies, as well as a regional anti-narcotics initiative. At a March 2009 summit in Moscow focusing on Afghanistan, SCO leaders announced a new campaign to curb the Afghan opium trade. The organization has also initiated a number of cultural and social programs focused on facilitating exchanges between government-sponsored youth groups and has announced plans to build an official SCO university.

Economically, the organization has periodically unveiled new coordinating bodies and proposals for deepening regional cooperation. The SCO Business Council is meant to coordinate economic and investment activities, while the Interbank Association aims to provide financing for regional infrastructure and investment projects. In 2006, Moscow proposed the creation of an SCO “energy club” that would structure and coordinate energy distribution and transmission across the region. However, the proposal has received little support from other members. Finally, in response to the global financial crisis, China announced at the Yekaterinburg summit that it would provide a \$10 billion stabilization fund to help member countries finance regional projects.

Competing Russian and Chinese Agendas for the SCO

Despite such initiatives and high profile announcements, the implementation of the non-security aspects of the SCO’s agenda has lagged considerably. The first reason for this is a growing rift between Russia and China over the SCO’s purpose and agenda. In general, Moscow regards the SCO as an instrument not only to combat transnational threats in Central Asia, but also to counter Western security influence across the region. Moscow has been keen to enlist Beijing’s support to publicly challenge U.S. hegemony and criticize the status and purpose of the U.S. military bases in Central Asia.

It is noteworthy, then, that Russia was publicly rebuffed by the SCO in the aftermath of the Georgia war at the organization’s September 2008 Dushanbe summit. Russian

President Dmitri Medvedev had hoped to secure recognition of Abkhazian and South Ossetian independence by SCO members. The Russian delegation was stymied, however, after China encouraged Central Asian states to hold firm on withholding recognition of the breakaway territories. The Russian request was misguided and clumsy, especially given that Beijing's overwhelming security priority is to reject separatist claims across the region, for fear of a demonstration effect in China's own periphery. After the summit, Moscow's attitude toward the SCO noticeably cooled, and some Russian officials started to call for the Collective Security Treaty Organization (CSTO) to become Moscow's preferred regional security organ in Central Asia. Russia feels as if it controls the agenda and activities of the CSTO far more than the SCO.

While China strongly supports the SCO's efforts to combat regional and transnational threats, it is now far more wary about casting the SCO as inherently anti-Western. Beijing has regularly used security ties with SCO member states to exchange intelligence and secure the rendition of suspected terrorist and separatist group members. China also views the SCO as its most promising mechanism for the stabilization and reconstruction effort in Afghanistan. However, for China, establishing a more robust strategic alliance with Russia to militarily counter the United States or the North Atlantic Treaty Organization is simply out of the question, as it would jeopardize Beijing's prized relationship with Washington.

Conversely, China would like to expand and deepen the regional economic and public goods agenda of the SCO. Chinese officials have called repeatedly for the development of an SCO free trade zone, as they hope to channel bilateral investments in the region's infrastructure, commodities, and energy sources through SCO coordinating mechanisms. However, all such proposals are treated with a great deal of caution and skepticism in Russia, which has become increasingly wary of China's growing economic and political influence in Central Asia and has little desire to accelerate China's economic dominance in the region. Over the last year alone, China has concluded huge bilateral investment and assistance packages with Kazakhstan and Turkmenistan in their energy sectors that seem to run counter to Russian interests. For Moscow, its continuing influence in Kyrgyzstan and Tajikistan rests, in part, on their relative economic weakness and Moscow's capacity to buy access with key investments and economic incentives, particularly in hydropower.

This year's negotiations on the establishment of an SCO stabilization fund highlighted the fundamental tension in Chinese and Russian attitudes toward the SCO's economic agenda. Beijing first broached the topic in October 2008, and, though Moscow moved quickly to create a similar fund for CIS members, it was less enthusiastic about the SCO fund. According to participants at the Yekaterinburg summit, Russia refused to capitalize an SCO fund, citing legislation that prevents the Russian Federation from contributing to a multilateral financial mechanism without approval from the legislature. However, both Russian and Chinese observers note that this was a technical excuse and that Russia simply does not want to fund a multilateral mechanism that it may not control. In the end, China announced that it would exclusively contribute \$10 billion to the fund.

Although few details have been released on the procedures for accessing the

financing, similar Chinese assistance packages typically mandate that the borrower spend some portion of the assistance on Chinese companies or contractors. It is also important to note that the fund far surpasses the commitments made to Central Asia by the traditional international financial institutions and regional donors such as the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB).

Institutional Weakness and Patrimonial States in Central Asia

The second factor that has inhibited more robust development of the SCO, especially in terms of deepening regional integration in the economic sectors, is the institutional weakness of the smaller Central Asian states. As scholars of Central Asian politics have noted, all the states of Central Asia are characterized by a type of patrimonial or client-based political system in which the governing regime commands loyalty from the bureaucracy, legislature, and local officials by dispensing patronage or allowing state officials to pursue economic opportunities afforded by their positions. As a result, poor governance, corruption, and economic particularism characterize economic activities and state agencies, as state positions are given as a reward to political loyalists.

The consequences of such political structures for broader regional development are profound, though rarely acknowledged in analyses of regional integration. While liberalizing trade and economic integration might be in the economic interest of these states, it may not necessarily be in the political interest of their ruling regimes. Any type of free trade or other form of economic liberalization would necessarily erode individual regimes' capacities to dispense patronage and use state economic sectors as political tools. Moreover, the ruling regimes and their families in Central Asia control lucrative state-owned sectors that generate significant private revenues. Liberalization of trade and investment would potentially subject these lucrative sectors to unwanted external competition and interference.

Moreover, in all the Central Asian states, borders function as instruments that allow various state agencies to collect rents and payments from official and unofficial transactions, effectively serving as non-tariff barriers and significantly depressing the volume of intraregional trade. For example, recent studies of Central Asian trade by the World Bank and the ADB note that traders seeking to transport goods across Central Asian borders had to secure the permission of several different official entities, each of which collected a payment or fee. In cash-strapped states, such as Kyrgyzstan and Tajikistan, border-related revenues are one of the few steady sources of government income, thus making these states reluctant to implement a regional free trade agreement.

Similarly, despite a number of announcements about new SCO anti-narcotics initiatives, such efforts have been hampered by the unofficial practices of state security agencies and border guards, most notably in Tajikistan, who are complicit in the Afghan drug trade. Given that smuggling accounts for much of the Tajik authorities' revenues, they have been reluctant to comply with all the international legal directives agreed upon by Dushanbe. Similarly, even if Tajikistan were to improve its capacity to interdict and, eventually, deter opium trade, the Turkmen transit route, in which

Turkmen agencies are actively collaborating with drug smugglers, offers a ready alternative.

In both trade and counternarcotics efforts, the institutional weakness of Central Asian states inhibits more effective regional cooperation and functional coordination. Because the SCO has tried to distinguish itself as a regional organization that respects the sovereignty of its members, thereby implicitly contrasting itself to the Western-led international organizations that impose political or economic conditions, it lacks the necessary mechanisms to promote the institutional capacity required for deepening regional integration in non-security sectors.

The SCO's Prospects in Central Asia and Western Engagement

The past year has demonstrated some of the fundamental problems currently inhibiting the further development of the SCO as an effective and multifaceted regional organization. Differences in the emerging priorities and interests of China and Russia have stifled the organization's plans to respond more robustly to the current financial crisis. Indeed, China seems to be becoming increasingly frustrated with other countries' reticence to respond to its economic proposals. At the same time, China has signed new multibillion dollar bilateral investment and assistance deals with Kazakhstan, Turkmenistan, and Tajikistan, signaling that it intends to pursue its economic goals in the region, under SCO auspices or not.

It is striking, then, that as the organization shows signs of stagnation, some in the West have become more vocal in their calls for robust engagement with it. In fact, the organization's policy planners are eagerly seeking external recognition and engagement – whether from Washington, the European Union, or NATO – as an additional impetus to reinvigorate its development.

There may well be a case for transatlantic engagement with the SCO, but policymakers should carefully consider whether the organization has demonstrated sufficient competence in areas such as infrastructure development or counternarcotics to merit meaningful engagement. Policymakers should also consider whether SCO efforts might undercut the ongoing activities of international organizations operating in the region. Moreover, given that the organization embodies many norms and principles that seem at odds with the Euro-Atlantic agenda, offering the prospect of engagement might encourage SCO officials to clarify how their agendas align with those of more established providers of global governance, as well as with the international community more broadly.

PONARS Eurasia publications are funded through the International Program of the Carnegie Corporation of New York.