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Dear Colleagues and Friends,

At this time of year, the winter has reached much of China and Eurasia but the region seems to be more sizzling than ever. The Taliban has increasingly asserted its presence in Afghanistan's southern provinces, and launched an insurgence of a magnitude unprecedented since the fall of the regime. Kyrgyzstan has adopted a new constitution following increasing pressure on Kurmanbek Bakiyev, and the competition over energy in the Caspian is intensifying. The strategic partnership between China and Russia has been further consolidated throughout the year, and they form a joint front on Iran. China's interest in forging deeper ties with India, after the two signed a strategic partnership 18 months ago, was also reconfirmed with the latest bilateral summit in late November where 13 agreements in the trade and energy sectors were signed. Most notable was the deal on civilian nuclear cooperation which comes amidst the U.S. Congress' ratification of a similar agreement.

Meanwhile, Uzbekistan continues to present a formidable challenge to both the U.S. and the EU, although two different strategies towards the country have been pursued. U.S. Assistant Secretary of State Richard Boucher visited Tashkent in August to heal the wounds of deteriorating U.S.-Uzbek relations, while the EU recently extended sanctions on Uzbekistan. Kazakhstan, moreover, is trying to deepen ties with both the U.S. and the EU, and has also been well received on both sides. Dick Cheney, on his visit to Astana in May, called Kazakhstan a regional anchor while President Nazarbayev's visit to Washington in October further strengthened these ties. The EU, in turn, has come to appreciate the importance of Kazakhstan for its future energy security, and as recent as December 4 it signed a Memorandum of Understanding on energy cooperation with Astana.¹ In sum, there are great security-dynamics and much at stake in Eurasia today. Both the European Union and the United States are deeply enmeshed in all of these interrelated issues, highlighting the importance of coherent, encompassing, and effective strategies towards the greater region.

The EU's and the U.S.' coinciding interests in the region could not be more obvious than today. Not only in relation to the promotion of democracy and market economy in Central Asia and the Caucasus, but also in sharing responsibility for the counterinsurgency in Afghanistan. NATO's ISAF mission has now taken over command of most parts of Afghanistan, and is jointly, together with Operation Enduring Freedom fighting the Taliban insurgence. The importance of its success can

¹ See, "EU to Enhance Energy Cooperation with Kazakhstan," *IRNA*, December 4 2006.

scarcely be understated, both because Afghanistan is approaching a turning point, but also because it represents a testcase of NATO's global capabilities outside of the Euro-Atlantic space. Apart from the increased level of violence in Afghanistan, the UN recently released a report which revealed that poppy cultivation had increased with 59 percent over the previous year—a major setback for counternarcotics efforts, and, indeed, Afghanistan's long-term success.²

In the midst of these negative developments a glimpse of hope has emerged. The Afghan population seems to support ongoing efforts which represent the most important asset for ISAF's engagement there, even if support for U.S. forces has waned. In November, the *Asia Foundation* published a nation-wide survey of Afghans' attitude towards the current situation in the country. It revealed that 44 percent of the Afghan population thought the country was heading in the right direction while only 22 percent stated the opposite. Moreover, 77 percent were satisfied with the democratic development in the country while few cited security as being a significant problem.³

Due credit should go to the commitment and patience shown by the Afghan people, and the courageous conscripts that serves in the Afghan National Army and Police Force. Yet, there are few reasons to believe this patience to be unlimited, and there should not be any doubt that the current situation in Afghanistan will prove a major obstacle to reconstruction efforts and Afghanistan's integration into the regional economy. The Delhi conference on Afghanistan's Reconstruction held on November 18-19 which brought together the heads of states throughout the region laid particular emphasis on the importance with trade and transports and its key role for long-term security. The flipside of the coin is that the deteriorating security situation will have adverse effects on both political consolidation and economic development. It will undoubtedly increase transaction costs and decrease the possibility for Afghanistan, in the short term, to act as a transit route for oil, gas and other consumer goods to and from India, Pakistan, China, Iran, and the five Central Asian states. Increased instability in Afghanistan will also create further tensions in the region at large, and impede integration of Greater Central Asia and the Eurasian region.

Increased regional cooperation and integration is necessary to resolve or at least manage the threats spilling over from Afghanistan, or, in the best of cases, assist Afghanistan in resolving its political instability. All neighboring states are well aware of the security interdependence that they share with Afghanistan. The primary manifestation of this is

² UN Press Release, "Afghan opium cultivation soars 59 percent in 2006, UNODC survey shows,"

<http://www.unodc.org/unodc/press_release_2006_09_01.html> (November 3 2006).

³ The Asia Foundation, *Afghanistan in 2006: A Survey of the Afghan People*, 2006.

perhaps the establishment of the Shanghai Cooperation Organization and its extension of observer status to the neighboring states of Iran, Pakistan and India. But the omission of Afghanistan presents a gaping hole in the organization that prevents its abilities to counter the threats from terrorists/political or religious militants. Not to mention that the SCO so far has demonstrated limited success to act as a security provider for the region. Moreover, much of the problems that the region faces are of trans-regional and polygonal character that calls for multilateral solutions.

Nowhere is the lack of cooperation more evident than in the economic field. Eurasia has failed to utilize its full economic capacity, much due to weak economic institutions, poor transportation networks, and high trade barriers between the different states in the region. Greater Eurasia could very well become the trading hub it once was as soon as oil, gas, electricity, and consumer goods starts to flow across borders; through Central Asia, Afghanistan and Kashmir on the north-south axis, and from China via Central Asia to Europe on the east-west axis. If trade impediments are surmounted, this would reduce existing transaction costs due to the comparative advantage in distance that Eurasian overland trade has. These issues have not been appropriately addressed by the different governments, and much more political will in capitalizing on these gains through regional cooperation needs to be displayed.

This is however not to say that no progress has been achieved. The second Euro Asia landbridge running from China's east coast to Europe is developing rapidly, where the recent completion of the Wushaoling Tunnel in China, together with the recent launch in early November of a container train from China to Europe are two steps in the right direction.⁴ The container train promises to cut transport time between China and Europe to 15 days from the current 40 days by sea. Moreover, although the security situation in Afghanistan is impeding the north-south transport corridor from Almaty to Islamabad and Delhi, improvements on the Karakorum highway are giving much needed infrastructural support for the further development of this route. The same goes for the rapid pace that bridges over the Pyanj River connecting Afghanistan with Tajikistan are constructed and restored. All of this is however dependent on political will, something which is more of an exception than rule.

It should be acknowledged that some political cooperation has been achieved, but much of this is simply back patting to guarantee each others security and political survival. The non-interference in domestic policy principle has formed the backbone of much cooperation among the regional states and within SCO even constructive criticism has been

⁴ "China-Germany Container Train Begins Formal Operation", *Xinhua*, November 2 2006.

absent. To be sure, the West has not fared much better. Failure to engage with reformist forces in the governments and parliaments of the region from the EU and the U.S. has given a *de facto* carte blanche for such states as China and Russia to influence political practices. Needless to say, this inadvertently will play in favor of the authoritarian forces at the expense of the reformists' potentials. The EU, having no more than a dozen diplomatic representatives in the Central Asian region, has so far demonstrated a meager interest and willingness to support *incremental* democratic progress.

The recent political developments in Kyrgyzstan that forced President Bakiyev to delegate more power to the parliament and rewrite the constitution has been positive in terms of political engagement, but shows the continuing weakness of the Kyrgyz political system. This latest political development, together with the Rose Revolution, the Orange Revolution, and the Tulip (Poppy) Revolution has had effects that go beyond the states concerned. Most governments in the region have become wary of being next in line to be overthrown by internal dissatisfaction. In much, many of the Eurasian governments have a greater fear of the internal opposition than external threats, i.e. the most evident signal of being a weak state.

In the energy field, tensions are becoming more and more frequent and a watershed is emerging in Eurasian energy relations. This is both for good and bad as it increases the options and opportunities for some states, while others find it almost impossible to break out of the Russian fold. Here, Azerbaijan and Georgia are further tilting towards the West. Not least as Azerbaijan will terminate export of oil to Russia through the Baku-Novorossiysk pipeline on January 1, and the South Caucasus natural gas pipeline running from the Shah Deniz field in the Caspian to Turkey is set to come on-stream the same day. As serious talks have been getting going between the U.S., EU on the one hand, and Kazakhstan on the other, on the construction of a trans-Caspian pipeline, this will make these two actors reach further inland Eurasia. Not least so if the Kashagan oil-field in the north of the Caspian is successfully developed. There should be no doubt that this greater presence will increase the ability of the West to promote its values in the region. It should neither be doubted that those states that are able to escape the sole Russian option could benefit from it—Azerbaijan's double digit growth rates are perhaps the primary example. But it will simultaneously spur a competition which is set to become more politically intense, where some states will have a harder time than others in balancing external interests.

The contributors to this issue will further explore the issues touched upon in this brief note, and I am confident that you will find their articles of great interest. I would also like to remind you that Dr. Erica Marat will guest-edit the next issue of the China and Eurasia Forum Quarterly

which will be released in February 2007. The entire issue will be devoted to military institutions and civil-military relations. Most articles for the issue have been solicited but authors are encouraged to send in articles for potential publication to emarat@silkroadstudies.org.

Finally, on behalf of the CEF team, we hope you enjoy this issue!

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Kazakhstan and the United States in a Changed World

*Evan A. Feigenbaum**

This year, we mark twin anniversaries: the fifteenth anniversary of Kazakhstan's independence and the fifteenth anniversary of the end of the Cold War. Put differently, the history of independent Kazakhstan has coincided precisely with a period of ferment and struggle, discussion and debate, a period in which many of the pillars that, for fifty years, defined the international system have fallen away.

Defining New Patterns of Cooperation with Central Asia

When Kazakhstan achieved its independence in December 1991, Kazakhstanis and Americans lived in a world shaped and scarred by the Cold War, defined by superpower competition, titanic ideological struggles among the powers, and “proxy” wars among competing blocs of states. With the end of the Cold War, what remained were the more hopeful pillars of an earlier time, built in the 1940s out of the ashes of a terrible world war. This is the prevailing architecture of today's international system. It includes the United Nations, as well as the “Bretton Woods” institutions, such as the World Bank and the International Monetary Fund. Other institutions that trace their roots to this period include alliances, such as NATO, whose roots likewise stretch back to the late 1940s.

However, the world of 2006 is, quite simply, not the world of 1946. Our world is changing in dramatic and important ways. For one thing, for the first time in more than two centuries, the major powers of the world are largely at peace with one another. This is a remarkable development — an opportunity, as President Bush has said, “to build a world where the Great Powers compete in peace instead of prepare for war.”

* Evan A. Feigenbaum is U.S. Deputy Assistant Secretary of State for South and Central Asian Affairs. This essay is adapted from a speech delivered to the Institute of World Economy and Policy, Almaty, Kazakhstan on August 23 2006. For the original and full text of the speech, see <<http://www.state.gov/p/sca/rls/rm/2006/71060.htm>>.

It has become fashionable, especially among observers of this region, to speak of a revival of the nineteenth century “Great Game.” But the United States maintains productive relations with every major power, not least Japan, China, India and Russia, just to name some. These states, in many cases, are also remaking their relations with one another. Indeed, at a global level, the major powers are forging more complex — and peaceful — relations than ever before.

For the United States, this means we seek a Central Asia in which there will be broad opportunities and choices for all, and where the independence and sovereignty of Central Asian nations trumps traditional superpower competition. In this context, the United States seeks to assist the countries of the region in accelerating political and economic development and addressing common security concerns. We do not view our relations with Central Asia — or with the major powers, more broadly — in zero-sum terms. Much like Kazakhstan, with its skillful “multivector” foreign policy, we seek strong and productive relations with all of them. Of course, we are not complacent about this opportunity, and cannot afford to be. We understand well the powerful legacy of perception, emotion, and history. We know, too, that the potential for large-scale conflict remains even with the end of the Cold War, for instance in the Taiwan Strait.

Kazakhstan, Central Asia, and Globalization

Still, in Central Asia, while elements of major power competition certainly remain, the United States views Kazakhstan — and other strong, sovereign, independent republics — as our primary partners in the region. For this reason, U.S. policy focuses not on outside powers but, first and foremost, on the Central Asian states themselves. We view them as independent, fully sovereign nations with international responsibilities. In short, they are not objects of struggle but the very focus of U.S. policy in this part of the world. Indeed, what we have seen over the past fifteen years is that the newly independent states of this region have been remarkably successful in turning the machinations of major powers into assets to benefit their interests and provide a balance that maximizes their independence. And Central Asians and Americans are on the same side more often than not amid the new and emerging challenges that now confront the region.

Globalization has brought Americans, Central Asians, Europeans, and hundreds of millions of others a higher standard of living. It has allowed us to bridge distances and provided greater choices in what we buy and do. Yet while globalization ties us together for trading goods and knowledge, it also is a conduit for the spread of disease, crime, terrorism,

drugs, the proliferation of dangerous weapons, and trafficking in men, women, and children.

What is clear, therefore, is that transnational issues demand multinational responses. Terrorists operate in almost every country. There is simply no way the United States working alone — or Kazakhstan, Tajikistan, Russia, India, or China working alone — can be present everywhere and at all times to fight it. Our common challenge is thus to define new patterns of cooperation: supporting, sustaining, and adapting the international system to the new challenges of this new era. Fundamentally, this means adapting the architecture I described earlier — the architecture established for the world of 1946 — to the new challenges of 2006.

The peoples of Asia — east, south, and central — have a special burden of responsibility to translate their growing power into new opportunities. In 1946, who could have imagined that Kazakhstan and other new nations astride the Caspian Sea — landlocked, removed by thousands of miles from the nearest seaports — would supply oil and gas to consumers from Malmö to Madrid? Who could have imagined that China and India would be among the world's fastest-growing economies? Or that East and South Asia would be among the world's leaders in biotechnology, nanotechnology and software engineering? Today, Kazakhstan and Central Asia — nations oriented for more than a century to the north and west — lie astride the world's most dynamic economic regions to the east and south. Central Asian states are poised to seize unprecedented economic opportunities that for centuries made this region a crossroads but which, for much of the 20th century, lay beyond their reach as closed borders and Cold War struggles shackled cross-border trade.

The collapse of the Soviet Union created borders where none had existed, divided families from communities, and separated water from farmers and fields. Since 1991, the ability to cross borders — from Central Asia to points in Afghanistan, China, and beyond — represents an unprecedented opportunity to tap into the extraordinary economic dynamism that now surrounds the greater Central Asian region. For Central Asia, this promise is best achieved to the degree that governments and peoples think and act as an integrated region. Reducing barriers and moving toward the long-term goal of becoming a single market will benefit consumers, make this region more attractive to foreign investors, and forge new patterns of cooperation.

This, then, is the core of American policy in this region: to support Central Asian states as fully sovereign, democratic, stable and prosperous nations, contributing to regional stability and the global war on terrorism and potentially serving as models of ethnic and religious tolerance. The United States seeks to work in multiple areas simultaneously: assuring

security; promoting economic change, including the advancement of regional integration and cooperation; and of course, promoting democratic reform. We seek to cooperate with Kazakhstan and its neighbors so that together we can assure multiple options and new opportunities in every direction on the compass, east, west, north, and south.

U.S. Policy toward Central Asia

America's policy is not "anti-" anyone. Nor is it focused in any single direction to the exclusion of any other. Rather, as Secretary of State Condoleezza Rice has said, it is to give impetus to a "corridor of reform" extending southward to Afghanistan and the Indian Ocean, even as the region's ties expand eastward to China, Japan, Korea, and the Pacific Rim. And while looking for these new opportunities to the south, the United States firmly supports maintaining and expanding Central Asia's robust ties to the Euro-Atlantic community, not least through institutions such as NATO and the Organization for Security and Cooperation in Europe (OSCE). Thus the United States is promoting options and opportunities omni-directionally, but increasingly to the south because it is the least developed direction.

In short, we are deeply committed to this region, and are committed for the long-haul. We take a multidimensional approach, working on security, economics and democracy simultaneously but working, too, across the seams of these issues: Promoting the rule of law is not simply a matter of better governance and democratic development but also creates a more attractive economic and investment climate since no company will invest where the rule of law is lacking, where contracts are not sacred, and where a firm has uncertain means of legal redress in the event of a contractual dispute. Likewise with the modernization of borders and customs: the United States has worked closely with Central Asian governments in both of these areas, improving security through our assistance but also facilitating economic interaction and expanded trade.

In all of these efforts, we put Central Asians themselves at the center of our approach. Kazakhstan, then, will have a growing role in all of this. The country's expanding economy and mounting funds for investment suggest enormous possibilities. Our two countries share an interest in the free movement of energy, people, goods, and information from the Kazakh steppes to the sea, including the seaports of the Indian Ocean. Our aim is not merely to support economic development along this north-south axis, but also to afford Afghanistan access to a wider world, thus becoming a bridge where once it was a barrier. In this vision, the

United States wants to be a convener, a facilitator, and an engine for change. We want to help pry open physical and diplomatic bottlenecks.

We look forward to undertaking a strategic dialogue on regional cooperation and economic integration with the countries of the region. The United States is working with multilateral institutions, such as the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), and the World Bank, along with national governments and the private sector. We are making progress in transportation, energy, telecommunications, and trade. The U.S.-funded US\$36 million Afghan-Tajik Bridge is scheduled to open in 2007. We are assisting with construction of customs and border crossing facilities throughout the region. We are making progress on rehabilitation of the Afghan energy grid, and hope to lay the foundations for export of electricity from Tajikistan to Afghanistan. In June this year, the U.S. Trade and Development Agency-sponsored Central Asian Power Sector Forum brought together all governments in the region, including Kazakhstan, as well as the private sector, to explore specific projects for Central and South Asian energy trading. Similarly, we are seeking to reduce trade and investment barriers through a U.S.-Central Asia Trade and Investment Framework Agreement and through technical assistance.

What, then, is the way ahead? The United States and Kazakhstan enjoy a vigorous strategic partnership with a constant stream of high-level visitors. U.S. Energy Secretary Samuel W. Bodman met with Kazakhstani President Nursultan Nazarbayev and Energy Minister Baktykozha Izmukhambetov in March 2006. U.S. Vice President Dick Cheney met with President Nazarbayev in May. In July, Secretary Rice met with Foreign Minister Kasymzhomart Tokayev while Agriculture Secretary Mike Johanns led an agricultural trade mission to Kazakhstan. And of course, President Nazarbayev visited the White House on September 29 to discuss with President Bush our increasingly varied and dynamic partnership. We expect this trend to continue.

We are working closely to assure security, assisting Kazakhstan to combat threats arising from narco-trafficking, terrorism, and smuggling of all contraband, including weapons of mass destruction, by building up Kazakhstan's rapid reaction capabilities. The U.S.-funded border security training program donated three patrol boats to the Maritime Border Guards. Our security assistance programs enable the refurbishment of facilities at the Maritime Academy in Aktau. In addition, we maintain a robust program of engagement to ensure Kazakhstan the capability to monitor and manage its land and sea borders. Kazakhstan is also acquiring with U.S. assistance refurbished Huey helicopters for its rapid reaction forces.

The United States and Kazakhstan have achieved notable successes in the field of nonproliferation as well. Our Department of Energy helped to decommission the Soviet-era BN-350 reactor and is addressing spent fuel disposition. It has helped Kazakhstan to increase materials protection, accounting, and controls at nuclear facilities. We have eliminated bio-weapons facilities at Stepnogorsk, and helped to employ dozens of former weapons scientists in peaceful, sustainable activities.

We are working closely to develop energy resources for the world market. Our policy emphasizes best commercial standards and transparency to ensure resources are developed efficiently and for the benefit of the countries concerned. We have pursued a policy of encouraging multiple pipelines to afford countries of the region options for export of their oil and gas. The completion of the Caspian Pipeline Consortium pipeline from Kazakhstan to Novorossiisk on the Black Sea in Russia, and the inauguration of the Baku-Tbilisi-Ceyhan (BTC) pipeline from Azerbaijan to Turkey, reflect the successes of this policy.

Indeed, we are especially proud of the role American firms have played in these endeavors. BTC in particular represents a new environmental, social, and design benchmark for energy transport worldwide. The construction of the South Caucasus Pipeline will bring Azerbaijani natural gas to European markets and, ultimately, Turkmen and Kazakhstani gas may cross the Caspian and share this route. By assuring multiple pipelines, unfettered by monopolies or geographic chokepoints, our policy is changing the landscape of Eurasia in an important and welcome way.

There is also the issue of trade, which helps to sustain growth, expand wealth and, we believe, lift all boats. The United States supports membership in the World Trade Organization (WTO) for all states of Central Asia, although only the Kyrgyz Republic is now a member. We are collaborating closely with Kazakhstan in its accession efforts and hope to do the same with Tajikistan. Business people have indicated to us that larger regional markets with expanding economies are most likely to attract the investment that can help to sustain further growth and prosperity.

Of special and particular note, an expanding economy — and expanded foreign investment too — require further reform. In addition to our encouragement of continued economic and commercial reforms, we look to Kazakhstan to make concomitant political reforms that will establish the democratic institutions fundamental to stability and the orderly transfer of power when President Nazarbayev completes his current term in 2013. Kazakhstan is one of the premier performers in the former Soviet Union on security and energy; it also needs to move forward on its democratic reform plans. After all, Kazakhstan today stands as a model of religious tolerance. Interethnic conflict is largely

absent. Rapid economic growth has erased most of the ground lost over the past fifteen years and the country is on the cusp of immense prosperity with the onset of oil production at Kashagan in the next three to four years.

The great challenge ahead is to manage that growth and to ensure that its benefits accrue to all of Kazakhstan's citizens. The best guarantor of Kazakhstan's future is a prosperous, stable, and democratic society where all citizens have a stake in the political system. In short, we believe Kazakhstan's leadership recognizes that economic and political modernization depend on continued political reform if — as we also hope — it is to join the world's fifty most competitive countries over the next decade. The United States firmly support this goal. We are working actively through our assistance programs to support Kazakhstan's efforts to create a modern, democratic society that affords each individual the opportunity to realize his or her destiny.

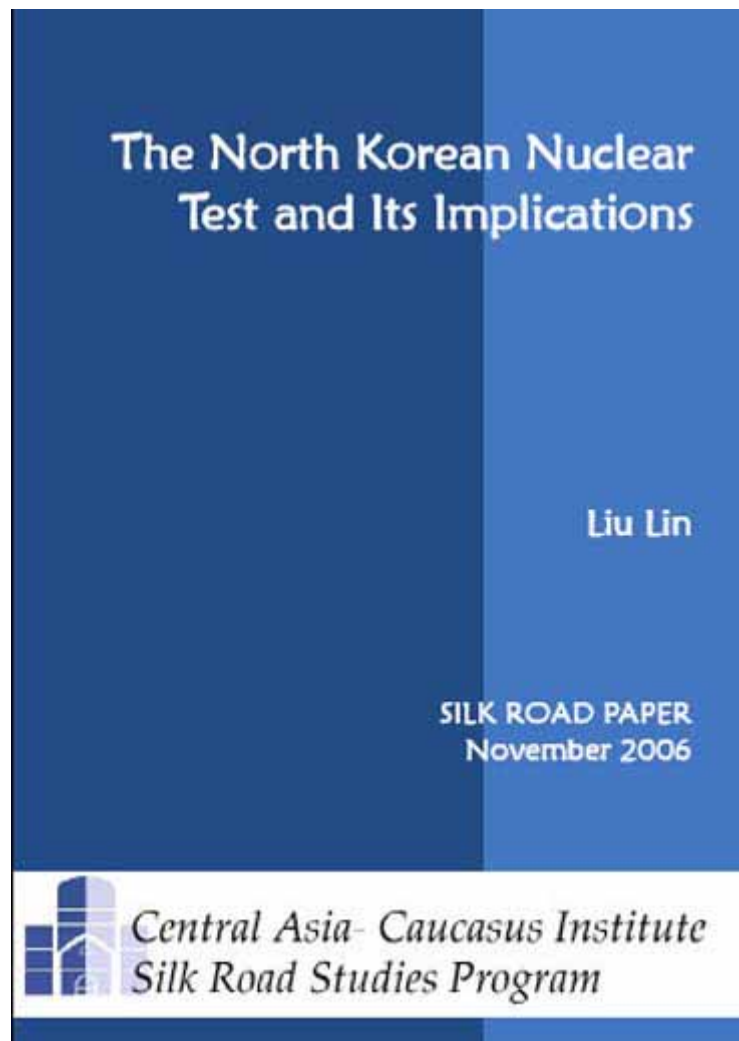
Conclusion

In sum, the United States and Kazakhstan have embarked on a promising strategic partnership at a moment of enormous global and regional opportunity. Our relations increasingly benefit the region and world, even as they benefit our two peoples. We are making notable progress in enlarging our shared vision of regional cooperation and integration. And we look forward to seeing the practical fruits of our work in the coming months and years.

Silk Road Paper, November 2006

The North Korean Nuclear Test and Its Implications
Liu Lin

This paper analyzes the factors contributing to North Korea's recent nuclear test, the implications with the test, as well as China's response to it. This 45-page paper is available from the offices of the Joint Center cited on the inside cover of this issue, or freely downloadable in PDF format from either www.cacianalyst.org or www.silkroadstudies.org.



The Logic Behind Sino-Iranian Cooperation

*Ilan Berman**

While it is certainly true that today the United States, in the words of the Bush administration, “may face no greater challenge from a single country than from Iran,”¹ this danger has not emerged in isolation. Serious foreign assistance has helped to nurture Iran’s nuclear quest and expand its regional ambitions. And currently perhaps Tehran’s greatest pillar of support is its ally in the East—the People’s Republic of China.

Ever since the start of international negotiations with Iran over its nuclear program some three years ago, China has worked actively to dilute the effectiveness of any global response. It has done so initially through its vociferous opposition to Iran’s referral to the United Nations Security Council, and more recently by its resistance to the imposition of multilateral sanctions against Tehran.

China’s obstructionism has been driven by two primary considerations. The first is energy. China’s runaway economic growth has brought with it a voracious appetite for energy. In 2003, the PRC surpassed Japan to become the world’s second largest consumer of oil and petroleum products. Since then, China’s oil consumption has continued to grow at an unprecedented rate; as of mid-2006, oil demand was projected to reach 7.4 million barrels daily that year—a half-a-million

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¹ The National Security Strategy of the United States, White House, Office of the Press Secretary, March 2006, <<http://www.whitehouse.gov/nsc/nss/2006/nss2006.pdf>> (November 1 2006).

barrel per day increase over 2005 levels.² By 2020, according to some estimates, Beijing's energy deficit could top eight million barrels per day.³

All of this has made Tehran an indispensable energy partner for the PRC. Home to approximately 10 percent of proven world oil reserves and the world's second largest reserves of natural gas, Iran is a *bona fide* energy superpower. Beijing's engagement with—and investment in—the Islamic Republic has reflected this reality. In 2004, the two countries came to terms on two massive accords, estimated to be worth some US\$100 billion over the next twenty-five years, granting Chinese firms extensive rights to develop Iranian oil and natural gas reserves.⁴ A flurry of additional deals has followed, and today Tehran and Beijing boast an energy partnership valued at some US\$120 billion or more.⁵

The results have been dramatic; Iran has emerged as one of China's largest oil suppliers, as long ago as 2002 already accounting for more than 15 percent of the PRC's annual oil imports.⁶ This degree of economic dependence, moreover, is poised to deepen considerably as energy projects now underway between the two countries begin to come online over the next several years.

The benefits of this partnership are hardly one-sided, however. Iranian officials remember well the experience of the late 1990s, when low world oil prices and international isolation brought their country's economy to the brink of collapse. As a result, the Islamic Republic has embarked upon an ambitious effort in recent years to diplomatically and economically engage foreign nations, more often than not through its chief export commodity: oil. The burgeoning partnership between Tehran and Beijing is a testament to its successes on that front.

While energy represents the primary driver of contemporary cooperation, mutual opposition to America's primacy in world affairs serves as an important secondary force. In the post-Cold War era, officials in Beijing have expressed their commitment to a multi-polar world in which American influence is diluted, and have pursued

² Energy Information Administration, Department of Energy, "Country Analysis Brief: China," August 2006, <www.eia.doe.gov/emeu/cabs/China/Oil.html> (November 3 2006).

³ Matthew R. Simmons, presentation at the Camden Conference on China, Camden, Maine, February 11 2006.

⁴ Robin Wright, "Iran's New Alliance with China Could Cost U.S. Leverage," *Washington Post*, November 17 2004, A21.

⁵ Gal Luft, Statement before the U.S.-China Economic and Security Review Commission, July 21 2005, <www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/luft_gal_wrt_s.htm> (November 3 2006).

⁶ "China," Department of Energy, Energy Information Administration, August 2006, <www.eia.doe.gov/emeu/cabs/China/Background.html> (November 15 2006); Jin Liangxiang, "Energy First: China and the Middle East," *Middle East Quarterly* 12, 2 (2005).

partnerships with nations antagonistic to the United States as part of this effort. As numerous observers have noted, China today has embraced a “balancing” strategy designed to frustrate U.S. policy through robust international diplomacy.⁷ While it is doing so most directly in Asia, the Chinese government has increasingly sought Middle Eastern partners for this venture as well. Cooperation with Iran, the emerging geopolitical center of gravity in the post-Saddam Hussein Middle East, has consequently emerged as a major point of political focus.

These sentiments have been echoed in Tehran. Ever since the Islamic Revolution of 1979, the regime in Tehran has viewed the United States as its principal enemy. For just as long, Iran’s ayatollahs have sought external partners for their anti-American regional and international policies. This focus, moreover, has deepened dramatically since the start of the War on Terror. The U.S.-led campaign against the Taliban in Afghanistan in 2001, and the subsequent removal of Saddam Hussein’s regime in Iraq two years later, may have eliminated Iran’s chief ideological and military adversaries. But it also raised fears among Iran’s ayatollahs of a dangerous encirclement—and of the possibility of a similar U.S.-driven transformation in their country. Iran has responded by seeking to strengthen its international partnerships, with China emerging as a major area of Iranian attention. As one conservative Iranian paper put it following then-president Mohammad Khatami’s landmark visit to the PRC in the year 2000, “the strengthening of the Tehran-Beijing axis is of great importance” in the context of “confronting the unipolar world being considered by America.”⁸

These trends have found their expression in an increasingly robust proliferation partnership, and in the integration of Iran into Chinese-dominated security structures.

From China, with Arms

Beginning in the early 1990s, the Chinese government launched a series of steps to alleviate mounting international concerns about its proliferation practices. In 1992, it acceded to the Nuclear Nonproliferation Treaty (NPT). Two years later, in a joint statement with the United States, the Chinese government pledged to abide by the Missile Technology Control Regime. Then, in 1996, it signed the Comprehensive Test Ban Treaty (CTBT) and independently announced a moratorium on nuclear testing. The following year, it officially joined the Zangger

⁷ See for example, Yuan-Kang Wang, “China’s Grand Strategy and U.S. Primacy: Is China Balancing American Power?” Brookings Institution Center for Northeast Asian Policy Studies Working Paper, July 2006, <www.brookings.edu/fp/cnaps/papers/wang2006.pdf> (November 3 2006).

⁸ “Evaluation of President’s Trip to China,” *Abrar*, June 29 2000.

Committee (NPT Exporters Committee). Most recently, in 2004, China became a member of the Nuclear Suppliers Group (NSG). In tandem with these measures, the PRC has repeatedly issued “white papers” and communiqués pledging greater unilateral restrictions on the sale of missile and WMD-related technologies abroad.⁹ But as a practical matter, China’s record of proliferation to Iran is poor—and getting worse.¹⁰

Conventional Arms Sales

Over the past decade-and-a-half, the Islamic Republic of Iran has been engaged in a sustained, multi-spectrum modernization of its military, and China has played a big part in these plans. For the period between 1993 and 1996, Chinese arms sales to Iran stood at approximately US\$400 million. Between 1997 and 2000, that number had risen to US\$600 million.¹¹ (Numbers for 2000 through 2006, though preliminary, appear to be more modest.) The goods provided by the PRC have included anti-ship cruise missiles, surface-to-air missiles, combat aircraft, and fast-attack patrol vessels, as well as advanced technology designed to expand the versatility of Iran’s burgeoning cruise missile arsenal. These supplies have contributed significantly to what has become the central element of Iran’s military rearmament—a revitalization of its naval forces. As a direct result, U.S. intelligence agencies now estimate that Iran has the ability to shut off the flow of oil from the Persian Gulf for brief periods of time, even with a Western military presence in the region.¹²

Ballistic Missiles

Despite its commitment to abide by the guidelines of the Missile Technology Control Regime, China remains an active missile partner of the Islamic Republic. The U.S. intelligence community believes that Chinese entities continue to provide substantial assistance to the Islamic Republic’s ballistic missile program, and have assisted the Iranian regime

⁹ Shirley A. Kan, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues* (Washington: Congressional Research Service, July 2006), 1-2.

¹⁰ During the Clinton administration, Chinese entities were subject to proliferation-related sanctions 17 times. During the first term of the Bush administration, that number rose to 50, in part due to more stringent monitoring requirements contained in the 2000 Iran Nonproliferation Act. See Daniel A. Pinkston, *Testimony before the U.S. China Economic and Security Review Commission*, March 10 2005, <<http://cns.miis.edu/research/congress/testim/pinkston.pdf>> (November 3 2006).

¹¹ Richard F. Grimmett, *Conventional Arms Transfers to Developing Nations, 1993–2000* (Washington: Congressional Research Service, August 2001), 28.

¹² Defense Intelligence Agency Director Lowell E. Jacoby, “Current and Projected National Security Threats to the United States,” *Statement before the Senate Select Committee on Intelligence*, February 24 2004, <<http://intelligence.senate.gov/0402hrg/040224/jacoby.pdf>> (November 1 2006).

in erecting an indigenous production capability for its strategic arsenal.¹³ In particular, American officials have expressed concerns that Chinese firms have aided in the development—and subsequently the enhancement—of the centerpiece of Iran’s ballistic missile arsenal, the 2,000-kilometer range *Shahab-3*.¹⁴

China has also provided Iran with sophisticated cruise missile technology. Beginning during the Iran-Iraq War (1980-88), large quantities of Chinese-origin “Silkworm,” C-801 “Eagle Strike,” and C-802 cruise missiles found their way to the Islamic Republic.¹⁵ Iran, in turn, has wasted no time in transferring this technology to its terrorist proxies. During the month-long war between Israel and Hezbollah in 2006, for example, an Israeli warship was hit and disabled by an Iranian variant of the C-802 “Silkworm”—a missile that Israeli officials previously did not know the Shi’ite militia possessed.¹⁶

Chemical Weapons

Iran’s efforts to acquire chemical weapons (CW), like its ballistic missile program, began during the Iran-Iraq War, when the Iranian leadership launched a national effort to develop a response to Iraqi chemical weapons attacks on Iranian troops. During the mid-1990s, this effort received a substantial boost from foreign suppliers, including China, who provided the Iranian regime with critical precursor chemicals and key weapons know-how.¹⁷ The results have been striking; since the mid-1990s, the U.S. government has termed Iran’s CW program to be the “most active” in the developing world—encompassing nerve, blister, choking and blood agents, as well as “a stockpile of at least several hundred metric

¹³ U.S. Central Intelligence Agency, *Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, July 1 Through December 31 2003*, November 2004, <https://www.cia.gov/cia/reports/721_reports/pdfs/721report_july_dec2003.pdf> (November 3 2006); U.S. China Economic and Security Review Commission, *2005 Report to Congress*, November 2005, 128.

¹⁴ “Pentagon Fears Russia, China Helping Iran Build Ballistic Missile,” *cnn.com*, July 19 2000, <<http://archives.cnn.com/2000/US/07/19/iran.missile.test/index.html>> (November 3 2006).

¹⁵ Once in Iran, these missiles were reverse-engineered as part of an Iranian effort to produce indigenous variants of foreign rockets. They were also deployed by the regime’s clerical army, the Pasdaran, on naval vessels and patrol craft, as well mounted on coastal batteries along the Strait of Hormuz. “C-802 / YJ-2 / Ying Ji-802 / CSS-C-8 / SACCADE,” *globalsecurity.org*, n.d., <www.globalsecurity.org/military/world/china/c-802.htm> (November 3 2006).

¹⁶ Alon Ben-David, “Hizbullah Hits Israel’s INS Hanit With Anti-Ship Missile,” *Jane’s Defence Weekly*, July 18 2006, <www.janes.com/defence/news/jdw/jdw060718_1_n.shtml> (November 3 2006).

¹⁷ See, for example, “CW Deliveries From China,” *Iran Brief*, July 6 1995.

tons of weaponized and bulk agent.”¹⁸ And, despite its status as an original signatory of the 1993 Chemical Weapons Convention, Chinese firms still appear to be actively engaged in the transfer of “dual-use CW-related production equipment and technology” that could assist in this effort.¹⁹

Nuclear Assistance

China’s most active WMD assistance to Iran, however, has been in the nuclear sphere. Preliminary nuclear contacts between the PRC and the Islamic Republic began in the mid- to late-1980s. The two countries are known to have signed nuclear accords in 1989, and again in 1991, paving the way for what would become a vibrant and multifaceted atomic partnership.²⁰ By 1996, in a manifestation of the strength of this collaboration, the Pentagon had officially designated China as a “principal supplier of nuclear technology to Iran.”²¹

A decade on, this aspect of the Sino-Iranian strategic partnership is still going strong, despite the threat of U.S. sanctions. China has reportedly been a major focus of Iranian procurement activities, with Iranian front companies successfully acquiring nuclear-related materials from the PRC in recent years.²² Iranian opposition elements have also charged that Chinese experts are employed at multiple nuclear facilities inside Iran, including the Saghand uranium mine and a uranium centrifuge facility outside Isfahan.²³ Beijing’s most important support, however, is moral; through its resistance to U.S. and European efforts to hold Iran accountable, Beijing has bought Tehran valuable time to forge ahead with its nuclear program.

¹⁸ Michael Eisenstadt, *Iranian Military Power: Capabilities and Intentions* (Washington: Washington Institute for Near East Policy, 1996), 26; Norman Schindler, “Iran’s Weapons of Mass Destruction Programs,” Statement before the Senate Governmental Affairs Committee International Security, Proliferation and Federal Services Subcommittee, September 21 2000.

¹⁹ U.S. Central Intelligence Agency, *Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 July Through 31 December 2003*.

²⁰ Herbert Krosney, *Deadly Business: Legal Deals and Outlaw Weapons* (New York: Four Walls Eight Windows, 1993), 250–51.

²¹ Office of the Secretary of Defense, *Proliferation: Threat and Response 1996* (Washington: U.S. Department of Defense, 1996), 14.

²² Glenn Kessler, “Group Alleges New Nuclear Site in Iran; Facility Said to Be Used to House Equipment to Enrich Uranium for Use in Weapons,” *Washington Post*, February 20 2003, A31.

²³ *Ibid.*

Shanghai Calling

Iran is likewise expanding its links with the premier security bloc in the “post-Soviet space,” the China-dominated Shanghai Cooperation Organization (SCO).

Established in June of 2001, the SCO is an expansion of the “Shanghai Five,” a regional grouping begun in 1996 with the purpose of strengthening the common security of its member states: Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan. By contrast, both the membership and the mission of the SCO are substantially broader. Ostensibly, the purpose of the new bloc, which now also encompasses Uzbekistan as a full member and Mongolia, Pakistan, India and Iran as observers, is to expand regional economic, cultural and counterterrorism cooperation.²⁴ Iran’s involvement, however, increasingly underscores the bloc’s unstated purpose: the diminution of American influence in the “post-Soviet space.” As Iranian observers have made clear, “[t]he national interests of Iran and China are in clear contradiction to the presence of the American military forces in Central Asia, and the support of China for Iran’s membership... should be seen within that framework.”²⁵

Indeed, Beijing appears to be receptive to Iranian efforts to expand its role in this grouping. Iran’s radical president, Mahmoud Ahmadinejad, was a guest of honor at the SCO’s June 2006 summit, delivering a public address that called upon the group to play a greater role against “the threats of domineering powers”—a thinly-veiled reference to the United States.²⁶ Beijing has also sent positive signals to Iran regarding its quest for full blown membership in the six-country bloc (though so far stopping short of directly lobbying for the Islamic Republic’s full inclusion in the forum).

Such a union, however, would have major benefits for both sides. Iran, facing a looming confrontation with the United States over its nuclear program, is eager to obtain a measure of collective security. China, meanwhile, has a vested interest in securing its most important energy partner against external threats. And while Iran’s immediate membership is not likely as a result of both institutional and political constraints,²⁷ the potential of such an expanded bloc, if and when it does

²⁴ Shanghai Cooperation Organization, “Declaration on Establishment of Shanghai Cooperation Organization,” June 15 2001, <www.sectsco.org/html/00088.html> (November 3 2006).

²⁵ *Sharq*, August 19 2006.

²⁶ Oliver August, “Iran in Talks to Join Alliance Against West,” *Times of London*, June 16 2006, <www.timesonline.co.uk/article/0,,13509-2228233,00.html> (November 3 2006).

²⁷ See, for example, “The Limits of the Shanghai Cooperation Organization,” *Radio Free Europe/Radio Liberty Press Report*, August 7 2006, <www.rferl.org/releases/2006/08/428-070806.asp> (November 3 2006).

materialize, would be immense. As David Wall of Cambridge University has explained, an SCO incorporating Iran “would essentially be an OPEC with bombs”: an energy-rich geopolitical alliance stretching from the Taiwan Strait to the Strait of Hormuz.²⁸

Trouble Ahead

The international crisis over Iran’s nuclear program is entering a new and dangerous phase, with world attention now focused on available punitive measures against the Islamic Republic, sanctions chief among them. China has a decisive vote in this process. By virtue of its permanent seat on the UN Security Council, China has the ability to stymie the UN’s implementation of multilateral measures against Iran. And, despite repeated U.S. entreaties, Chinese officials have done just that, steadfastly refusing to back sanctions against Iran on the grounds that they would be “counterproductive.”²⁹

Beijing’s resistance is logical. Sanctions against Iran threaten to undermine an increasingly important element of the PRC’s economic construct. China requires steady supplies of oil in order to maintain its current economic momentum, and can ill afford a supply interruption—particularly from an energy source as important as Iran. It has likewise not been lost on Chinese officials that a likely result of sanctions could be an escalation to military action against Iran, and the possible loss of a major Chinese ally to U.S.-supported regime change.³⁰

For its part, Iran is well aware of China’s calculus. As one Iranian analyst recently put it: “The dimensions of the historical, religious, economic and commercial cooperation between Iran and China are numerous, and it seems that China has always considered very seriously the dilemma of choosing either Iran or the United States, and it is hoped that in the end, it is going to choose that option which will safeguard the long term interests of China.”³¹

None of this is to say that Chinese officials are not cognizant of the dangers of Iran’s atomic drive. In recent months, China has joined with the other permanent members of the UN Security Council in pressuring

²⁸ As cited in Michael Mainville, “Central Asian Bloc Considering Iran for Membership,” *Washington Times*, June 5 2006, <www.washingtontimes.com/world/20060604-103052-2402r.htm> (November 1 2006).

²⁹ “Chinese PM Dismisses Iran Sanctions as ‘Counterproductive,’” *IRNA* (Tehran), September 7 2006, <www.tehrantimes.com/Description.asp?Da=9/7/2006&Cat=2&Num=014> (October 31 2006).

³⁰ *People’s Daily*, April 13 2006, as cited in John J. Tkacik, Jr., “Confront China’s Support for Iran’s Nuclear Weapons,” *Heritage Foundation* (Webmemo no. 1042), April 18 2006, <www.heritage.org/Research/AsiaandthePacific/wm1042.cfm> (November 3 2006).

³¹ *Sharq*, August 19 2006.

Iran to abandon its uranium enrichment activities. But, in keeping with its internal economic imperatives, the PRC has insisted on “diplomacy” as the sole means of resolving the Iranian nuclear impasse.³²

China’s stance has far-reaching implications. So far, the Bush administration has focused on international diplomacy as the primary means by which to curb Iran’s nuclear ambitions. However, it is becoming increasingly clear that China’s political and economic priorities militate strongly against a constructive role for Beijing in the peaceful resolution of this crisis. And, without progress toward a diplomatic and peaceful resolution, the likelihood of more drastic measures to prevent Iran from “going nuclear” is becoming all the more likely.

³² “Major Powers Warn Iran on Nuclear Programme,” *Times of London*, March 30 2006, <www.timesonline.co.uk/article/0,,3-2111093,00.html> (November 3 2006).

NATO Battles the Taliban and Tests Its Future in Afghanistan

*Julianne Smith**

NATO is currently undertaking the most consequential and substantial military operation in its history. When NATO assumed command of the International Security Assistance Force (ISAF) in Afghanistan in August 2003, it represented a watershed in the Alliance's history – the first mission outside the Euro-Atlantic Area. Today, the Alliance has over 30,000 troops on the ground, working to defeat the residual insurgency and undertaking large-scale reconstruction projects. NATO leaders hoped that this mission would serve as an indicator of the Alliance's viability and effectiveness in tackling 21st century challenges. But the mission has posed problems for the Alliance, highlighting capability shortfalls, exposing ongoing problems with national caveats and coordination, and fueling thorny internal debates about NATO's future roles and missions.

ISAF was given a peace-enforcement mandate by the UN Security Council under Chapter VII of the UN Charter. The mission was originally limited to Kabul until an October 2003 UN resolution paved the way for a long-sought expansion. Stage one, which took place in 2003-04, expanded ISAF's area of operations to the northern part of Afghanistan. Stage two came into force in 2005, when NATO moved into western Afghanistan. Stage three was officially launched in late July 2006 when the Alliance took over the volatile southern Afghan theater from the U.S.-led Operation Enduring Freedom (OEF). Finally, on September 28, 2006, NATO decided to take over the remaining eastern provinces as part of stage four.

The ISAF mission aims to assist the elected Afghan government in maintaining security, expanding the authority of the government, and providing an environment conducive to reconstruction, democratic governance, and rule of law. To meet these goals, NATO is undertaking

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a wide variety of tasks, ranging from the training of Afghan security forces to supporting anti-narcotics efforts to high-intensity combat. The efforts mirror two sets of strategic challenges in Afghanistan: one in the relatively stable north and west of the country and another in the often violent south and east, where NATO forces are involved in intense and fierce fighting against the Taliban and taking casualties fairly regularly.

The NATO operation in Afghanistan is in itself a remarkable achievement. Given the distance from Brussels, complexity, and operational environment, ISAF would have been an unimaginable mission just ten years ago.

Capability Shortfalls

NATO's mission, however, has not been without challenges, particularly when it comes to fielding expeditionary capabilities. In August of 2006, with deadly attacks against NATO troops on the rise, NATO's top commander, General James L. Jones, asked allies to send an additional 2,500 troops to combat Taliban forces in southern Afghanistan. The deafening silence that followed raised questions about whether NATO had the political will and adequate capabilities to succeed.¹

Since the fall of the Berlin Wall, European countries at both the national level and inside international organizations such as NATO and the EU have issued dozens of strategy documents, outlining the need for enhanced capabilities to combat terrorism and the proliferation of WMD, deal with failed or failing states, contend with regional conflicts, and respond to humanitarian crises or other challenges. Transformation from static Cold War militaries into leaner forces has also been a priority for NATO countries for years. Despite these goals, defense spending in most European countries remains flat or in decline with few signs of increased funding in the next five years.

The reasons for this are clear. First, defense spending remains in fierce competition with growing social spending requirements. Second, European investments in new capabilities are constrained by the fragmented nature of European defense demands. The thicket of rules and regulations that govern European defense trade and industrial capabilities are focused largely on legacy platforms and job creation rather than transformation. Some progress has been made in recent years with the creation of a European Defense Agency, but it remains to be seen if national militaries will offer up substantial projects for open competition. Finally, conscription or universal service requirements in some European countries require substantial personnel and benefit

¹ A handful of countries, including Poland, eventually stepped forward and it now appears that the request will be met in early 2007.

outlays on troops, which often detract from research and development investments.

With some countries spending as little as 1.4 percent of GDP on defense (despite NATO's stated target of at least 2 percent), Europe's progress on creating forces prepared for expeditionary operations such as the NATO mission in Afghanistan has been slow. Only a small percentage of Europe's roughly 2 million troops are deployable. Estimates range from 3 to 5 percent. Those European troops that are deployable are often tasked with peacekeeping or stabilization missions because they are simply not equipped and trained for high-intensity combat.

The Issue of National Caveats

In other cases, particularly in Germany, the decision not to send troops into combat in southern Afghanistan is rooted more in politics than preparedness. German political elites firmly believe that the public will not stomach soldiers coming back in body bags, but will rally behind more benign and safe humanitarian deployments. Germany is not alone, however, in setting firm guidelines for how and when their troops can be used for NATO operations. Several other members of the Alliance place their troops under strict national caveats concerning the rules of engagement or geographical mobility, which limits their utility for fast-paced combat operations where allies have to come together on short notice to face an adaptive adversary. As a result, only a small number of NATO countries have both the capabilities and the political will to undertake and sustain high intensity combat operations.

Today, approximately 7,000 troops from Britain, Canada, and the Netherlands are fending off the Taliban resurgence in the south. As the security situation worsens, calls from those three countries for other NATO members to assist have grown louder. Why, they ask, should the majority of combat tasks be carried out by a minority of NATO members? France and Germany argue that they are already overstretched with other peacekeeping missions in Lebanon, Congo, and elsewhere, preventing them from sending more troops.

It is important to note that European reluctance to commit substantial troops to combat operations in Afghanistan is also tied to the current mood in Europe towards the war on terror. The widespread perception that the United States abandoned Afghanistan to pursue the unpopular Iraq war makes the prospect of casualties in Afghanistan doubly daunting for European governments. There is an undercurrent of resentment among European leaders who feel they are being repeatedly asked to clean up a problem that the Iraq war in part created, or at least made worse. It is also worth noting that NATO has been ringing the alarm bells about its under-supported ISAF mission and the credibility of the alliance since

2003. Some European politicians may be desensitized to these pleas at precisely the worst time and when NATO needs their support most.

Canadian, British, and Dutch military leaders warn, however, that if additional countries do not step forward with troops and much-needed capabilities such as tactical airlift in the coming months, the mission could fail.

Coordination

In addition to its search for more ISAF contributors inside the Alliance, NATO is currently looking for ways to strengthen its coordination on the ground with civilian and humanitarian organizations. As was the case in Afghanistan, coordination often starts only after forces arrive in theater, which wastes precious time, leads to duplication of effort, and creates confusion for local actors. In the future, NATO will need to build habits of cooperation *before* crises arise to improve unity of effort on the ground and enhance the effectiveness of NATO operations.²

In the short term, NATO's Secretary General is calling for the European Union, the World Bank, and the UN to join forces with the Alliance to coordinate current military and civilian operations. While NATO troops have been busy defeating insurgent forces, stabilization efforts have remained stagnant. As a result, short-term military gains rarely lead to long-term stability because they are not followed up with proper reconstruction funds or the deployment of Afghan security forces.

Most experts agree that both reconstruction and security must be pursued simultaneously but there is no agreement, particularly among NATO allies, on what model to use to do so. Given their success in other parts of the country, Provincial Reconstruction Teams (PRT) are frequently cited as the best path forward, but the current combat environment prevents civilian players from operating effectively in many areas in the south. The PRTs also run on six-month command cycles – far from ideal for developing long-term solutions.

Another option would be to give NATO a greater reconstruction role, although several allies are uncomfortable with this prospect. For now, NATO is calling on the EU to take over the training of police forces, a task that Germany has been handling with some success but on a scale that is much too small for the country's security needs. Supreme Allied Commander Europe General Jones has called the training to date

² Some members, however, are cautious about the Alliance strengthening its coordination role and worry that doing so would move NATO in a political direction that is inconsistent with its core mission of collective defense. More debate on this issue is needed before the Alliance can create new coordination mechanisms with civilian and humanitarian organizations.

“disappointing and inadequate.”³ The approaching winter weather – when fighting usually subsides due to the bitter temperatures – will provide NATO and other organizations on the ground with a much-needed pause to develop additional strategies to bridge the stabilization and reconstruction gap.

Questions about NATO’s Future

Some NATO watchers believe the ISAF mission marks the birth of a “global NATO” that is willing and able to face a wide range of 21st century threats. However, a number of NATO member states, particularly France, remain deeply uncomfortable with this notion and are urging the Alliance to return to its core mission of collective defense or Article V mission. French President, Jacques Chirac, explicitly made this point before a forum of French Ambassadors on August 28, 2006:

“In a few weeks' time, the NATO Summit will be taking place in Riga. We want this meeting to be a success and to mark a further milestone in the adaptation of the Alliance. We will achieve this by upholding NATO's legitimacy as a military organization guaranteeing the collective security of the European and North American allies. To seek to involve the Alliance in non-military missions, ad hoc partnerships, technological ventures or an insufficiently prepared enlargement could only distort its purpose.”⁴

NATO’s recently drafted Comprehensive Political Guidance (CPG), which was formally endorsed by Heads of State at the NATO Summit in Riga in November, is supposed to help reconcile the diverging views inside the Alliance on NATO’s overarching purpose. The five-page document does cite a range of threats the Alliance might face in the future, including the proliferation of WMD, failing states, the misuse of emerging technologies, and the disruption of vital resources but it remains vague on NATO’s future roles and mission. Traditionalists will note that the CPG reaffirms the continuing relevance and importance of Article V. Globalists, or those with a more ambitious vision for NATO’s future, will be relieved to see that the CPG also stresses that the Alliance should be prepared for missions that include those that are asymmetric or fall outside the Euro-Atlantic area. Both camps, therefore, will interpret

³ Judy Dempsey, “NATO Chief Urges Overhaul of Afghanistan Effort,” *The International Herald Tribune*, November 6 2006.

⁴ Speech by President Jacques Chirac at the opening of the Fourteenth Ambassadors’ Conference, Paris, August 28 2006, transcript available at, <www.ambafrance-us.org/news/standpoint/stand174.asp> (October 25 2006).

the CPG differently and the question as to whether or not NATO's current mission in Afghanistan is a precedent or exception will remain unanswered.

The best way to chart a way forward for the Alliance is to rewrite NATO's Strategic Concept, last updated in 1999 at the summit in Washington, DC. As the cornerstone of NATO's defense planning efforts, the Strategic Concept is too important to let drift into irrelevance. Because the CPG fails to provide the proper strategic guidance, NATO should commit itself to writing a new Strategic Concept for its 60th anniversary summit in 2009, as German Chancellor Angela Merkel of Germany and many others have suggested. That task will no doubt trigger thorny debates about NATO's challenges and objectives. Members should view that process as a critical opportunity to foster healthy discussion and to trigger reform in a number of other areas including enlargement, partnerships, and capabilities, which have been held hostage in recent years by NATO's greater strategic debates.

Events in Afghanistan are reaching a critical juncture, and European politics and perceptions, as well as United States commitments in Iraq, may prevent NATO from getting the assets necessary to ensure victory. The resurgence of the Taliban and weakness of the central government in Afghanistan will continue to threaten global security without aggressive support from the West, particularly NATO and the EU. Afghanistan is far from a lost cause, but the substantial progress and promise envisioned after the fall of Kabul is slowly being reversed. The unwillingness or inability to raise the necessary forces that General Jones called for is not surprising, but failure to meet this commitment will have drastic consequences both for Afghanistan and for NATO itself.

Russia's Energy Leverage over China and the Sinopec-Rosneft Deal

*Nicklas Norling**

The bilateral relations between China and Russia have attracted much attention in recent years. This is partly due to the uncertainty surrounding the relationship, some arguing that relations are at an all-time high, while others stress the underlying tensions involved and the volatile history between the two. The energy sector has been identified as an area of particular uncertainty where disagreements are frequent, although employed rhetoric and the tendency of both to downplay their differences may suggest otherwise. Conflicting interests particularly pertain to equity stakes in energy exploration and transportation which is of major strategic importance to both. Russia tries through all means to retain control over energy resources and its transportation networks while China hunts globally, including in Russia, for equity shares in energy resources and pipelines. As such, Moscow has vehemently opposed Beijing's attempts to become a shareholder in Russia's energy industry.

In view of this, a deal of major importance was signed this year between the two largest oil companies in Russia and China, Rosneft and the China Petroleum & Chemical Corporation (Sinopec), who struck an agreement to jointly explore oil wells in the Russian republic of Udmurtia. The deal is significant in the sense that it is the first time Beijing gets to be a shareholder of assets in Russia's oil industry without the Kremlin's interference,¹ and it came as a result of the announced tender of TNK-BP's 96,9 percent share of OJSC Udmurtneft. Considering the centralization of Russia's energy assets that has occurred in recent years with the crack-down on the oligarchs, opposition to foreign ownership, and use of energy as leverage, many doubted that the deal would eventually go through. Especially when considering that

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¹ "Rosneft, China's Sinopec sign deal to buy Russian oil co." *RIA Novosti*, November 17, <<http://en.rian.ru/russia/20061117/55732887.html>> (November 17 2006).

China's energy acquisitions have been viewed as a threat in the Russian Duma and in the Kremlin.²

Stratfor, for instance, predicted that: "A more likely outcome than a straightforward Chinese acquisition is an internal knife fight that lands Udmurtneft in the hands of one of Russia's own state firms."³ Not least in view of the fact that the Russian Duma had blocked a similar attempt by CNPC to purchase Slavneft in 2002. This, however, did not happen in this case and the deal went through smoothly. The key question here is: why did Russia not interfere and block the deal considering the leverage that it has over China? To answer this question it is first necessary to appreciate the full extent of this leverage, and what China has to abide with in order to get access to Russian energy assets. However, this leverage is not endless and Russia has to provide some concessions to prevent the strategic partnership from reversing. Russia does so when potential gains are optimized and strategic risks minimized, and the sale of Udmurtneft represents such a case.

Russia's Energy Leverage over China, the Sinopec-Rosneft Deal, and Rosneft's China Connection

To begin with, there is a need to understand the interests of both parties. The primary factor accounting for China's interests in the Russian market relates to an urgent need for energy diversification, and to avoid paying the premium added to Middle Eastern oil. The Middle East currently supplies 45 percent of China's imported energy, while Russia accounts for a mere 8 percent despite the geographical proximity and abundant resources of Russian Siberia.⁴ The rapid economic growth of China, estimated to reach 9.9 percent in 2006, necessitates a substantial increase in energy supplies to sustain Beijing's modernization drive. Russia has been disinclined to assist in these efforts, due both to geo-strategic factors, costs, trade composition, and leverage. To this end, the Kremlin has used energy as a foreign policy tool and continuously short-changed Beijing in its energy exports. Russia would also rather see itself as an exporter of technology and machinery to China rather than just raw materials and energy. The latter comprised almost 90 percent of Russia's total exports to China in 2005.⁵ Ever since Beijing started to show an increased interest in Russian energy assets, Russia has persistently used energy as leverage and forged agreements on its own terms. This has

² See for example, Stephen Blank, "China, Kazakh Energy, and Russia: An Unlikely Ménage à Trois," *China and Eurasia Forum Quarterly* 3, 3 (2005): 106.

³ "Russia: The Political Threat to China's Acquisition," *Stratfor*, June 20 2006.

⁴ "China and Russia to focus on oil," *Taipei Times*, March 20 2006.

⁵ Sergei Blagov, "Russia Pledges to Up Trade With China," *Eurasia Daily Monitor*, November 7 2005.

excluded Beijing's potential in acquiring equity stakes in the Russian energy industry.

As such, it came as a surprise when in March, 2006 it was announced that officials from Sinopec and Rosneft had met in Beijing to sign a memorandum of cooperation regarding the bidding on Russian oil-company's TNK-BP's 96,9 percent share of OJSC Udmurtneft, which was put up for tender. The memorandum specified that if Sinopec won the tender on the acquisition it would give Rosneft 51 percent of the shares, while the Chinese would get the remaining 49 percent and be obliged to finance the entire deal through a loan agreement from the Bank of China.⁶ Rosneft would in due course pay back this loan as revenues started pouring in. The purported starting price of bidding was \$1 billion, and Sinopec managed to outbid such firms as Gazpromneft (formerly Sibneft), India's ONGC, as well as Hungary's MOL by placing a US\$3.5 billion bid and was subsequently declared the winner in June. In mid-November the two parties signed the shareholder agreement, developed a business plan and a five-year development program for the company.⁷ This also coincided with Russian Prime Minister Mikhail Fradkov's visit to Beijing on November 10 where he met with Chinese President Hu Jintao and other Chinese officials.

To understand the basis of the agreement between Sinopec and Rosneft there is a need to appreciate the history of Rosneft, its "China connection", and how it uses its leverage. Although the Sinopec-Rosneft deal is the first time that China gets an equity stake in the Russian oil industry, it is not the first time that China has stepped in and financed Russian energy acquisitions. In 2004, Chinese banks financed Rosneft's acquisition of Yuganskneftegaz (Yukos' flagship before it was stripped by the Russian government) with a US\$6 billion loan in exchange for long-term supply contracts of oil.⁸ This acquisition of Yuganskneftegaz was crucial for Rosneft in reasserting its status in the Russian oil industry.

The humiliating part of this deal for Beijing was that Yukos, the previous owner of Yuganskneftegaz, had agreed to build a pipeline to China from the Russian Far East (Nakhodka-Daqing). However, instead of getting a pipeline it was forced to finance the expropriator's stripping of Yukos, in exchange for meagre raise of oil exports in comparison. The 2,400 kilometre pipeline was planned to carry up to 20 million tons of oil representing a significant 12 percent of China's total oil consumption. But the crack-down on the oligarchs and private interests in the Russian energy industry prevented this as Yukos assets were seized and later sold

⁶ "Rosneft, China's Sinopec sign deal to buy Russian oil co." *RIA Novosti*, November 17 2006.

⁷ "Rosneft and Sinopec to Jointly Control Udmurtneft," *Rigzone*, November 17 2006.

⁸ "The Ties That Bind China, Russia and Iran," *Asia Times*, June 4 2005.

to Rosneft at a fire sale financed by the Chinese. With the incorporation of the company, Rosneft became Russia's second largest oil company, and has since then reached the position of number one.⁹

This is a significant transformation as Rosneft has been a heavy debt-ridden and inefficient company with little liquid capital. In the late 1990s, Rosneft's problems were of such a magnitude that its shareholder, the Russian state, considered liquidating the company. At this point in time the company was valued at just over US\$500 million, as compared to Rosneft's estimated market capitalization value of US\$60-80 billion today.¹⁰ The company managed however to stay in business, and a major factor accounting for Rosneft's emergence today as an oil giant and its turnaround in profit is the bargain price for which it seized the assets of Yuganskneftegaz. This, indeed, would have been impossible without China's willingness to finance the deal on such favourable conditions.

Despite this bargain, Rosneft remained in heavy debt and was forced to sell a fraction of the firm to external investors. Prior to the initial public offering (IPO) in July 2006, Rosneft had debts reaching US\$11 billion. These debts were settled at the end of July as Rosneft placed 13 percent of its shares, worth approximately US\$10.4 billion, on IPO on the Russian Trading System and the London Stock Exchange.¹¹ The China National Petroleum Corporation (CNPC) showed great interest in seizing as much as possible of this offering but was only allocated a modest US\$500 million share, despite reports that CNPC was prepared to pay US\$3 billion.¹² This should be viewed in context of the US\$1 billion shares allocated to such competitors as Petronas and BP.¹³ As such, apart from having to swallow financing Rosneft's stripping of Yukos, which was the sole Russian company that have given a glimmer of hope to Beijing, Rosneft short-changed Beijing once again. Finally, even though Rosneft had managed to pay-off its debts and gain access to an immense cash-flow, Beijing still had to take all the risks and be the sole financier of their joint purchase of Udmurtneft.

However, Chinese President Hu Jintao and other Chinese officials seem to give minor emphasis to its history with Rosneft in official statements. As the deal between Sinopec and Rosneft was to be finalized in Beijing, Hu Jintao stated that Fradkov's coinciding visit would "push

⁹ Rosneft Background at Russiaprofile.org <<http://tinyurl.com/y9g54y>> (November 5 2006).

¹⁰ *Ibid.*

¹¹ To be fair, this was not solely because of liquidity problems but also because the company aimed for the position as an A1 company at the Russian Trading System where a diversified ownership structure is required.

¹² Rosneft Background at Russiaprofile.org.

¹³ *Ibid.*

forward our strategic partnership.”¹⁴ Moreover, in apprehending the Sinopec-Rosneft deal, a Chinese official stated that: “It’s a pact about an integrated partnership.”¹⁵ Similarly, as CNPC was snubbed from buying more than a US\$500 million stake of Rosneft, CNPC’s official statement after the purchase proclaimed that: “the purchase of the shares will deepen the long-term relationship between the two companies.”¹⁶ That China and Russia use rhetoric to smoothen over their differences is no news, however. Chinese officials know very well the background behind Yukos, its financing of Rosneft’s success, that Moscow would rather see anyone other than Beijing in its energy fields, and that Russia sets the conditions. This has caused major strains in bilateral relations, although these are not voiced publicly. This episode illustrates well the complexity and rhetoric involved in Sino-Russian energy relations and the leverage that Russia holds over China. But it also complicates the question of why Russia gives into Chinese pressures when it enjoys this amount of leverage.

Striking a Compromise

There are three main answers as to why Russia gives into China’s pressure which relate to commercial considerations, an interest in keeping the strategic partnership floating, and improved Sino-Russian relations. There should be no doubt that the deal is one step forward in energy relations between Russia and China, and it indicates that Moscow has started to make some concessions to Beijing in the energy sector. Although Beijing had to overpay, the deal was a step ahead for Beijing in the sense that it actually got some degree of influence in exchange for its financial risks. This was not the case in 2004 when Chinese banks financed Rosneft’s acquisition of Yuganskneftegaz with a US\$6 billion loan and only received a pledge of long-term supply contracts via rail in exchange. But one should be careful in drawing premature conclusions that the geo-strategic aspect of energy in the partnership is abating. Especially when considering the room to manoeuvre that Russia has, and its ability to strike a deal on almost whatever terms it wishes.

On the basis of its energy engagements with China, Russia knows that Beijing will agree to almost anything that involves it getting energy access, and therefore Russia is reluctant to play the energy card prematurely since it is the only lever that it has. This is why Russia, in the main, delays pipeline constructions, does not fulfil settled

¹⁴ “Energy tops agenda as Russian premier meets Chinese leaders,” *AFP*, November 10 2006.

¹⁵ ” UPDATE 1-Rosneft, Sinopec expand alliance to China refining,” *Reuters*, November 14 2006..

¹⁶ “China/Russia: CNPC Denied Intended Stake In Rosneft,” *RFE/RL*, July 19 2006.

agreements, and is obstructive in its energy engagements with China. The reason why it yielded to Beijing's pressures in the Sinopec-Rosneft deal is explained by a Russian realization that it has to give something to keep the strategic partnership on course, and so that it does not unravel. Not to mention that Rosneft made the deal of the century by letting China finance its acquisition of Yuganskneftegaz in times of severe cash problems. Russia probably realized that it was forced to give in to Chinese equity shares in its oil industry sooner or later, and gave up 49 percent of Udmurtneft for this purpose. As it involved no financial risks whatsoever from Rosneft's side, plus a payment to the Russian company TNK-BP far above market value, Russia had much to gain by striking a deal at this particular moment when gains were optimized.

With the Chinese being obliged to pay a "premium" for access to Russian energy resources the Russian oil-company TNK-BP predicted that it would get a price far above market value. This turned out to be the case. The price of US\$3.5 billion, US\$2.5 billion over the starting price, has been considered way above the market-value of the company and its oil fields which reportedly are in decline.¹⁷ Perhaps by learning from Sino-Russian engagement in the arms industry where Russia was forced to supply Beijing with endless amounts of arms to keep its military-industrial complex floating, China seems to have realized that the only way to access Russia's strategic interests is to offer substantial cash incentives. In a similar way as Russia gave up its long-term national interest for short-term economic incentives by opening up its arms industry, Chinese hard currency is today needed in the Russian energy sector.¹⁸ As revealed in Russia's Energy Strategy 2001-2020, there is a need for around 450-600 billion euros to be invested in an ageing capital stock in this period, and in order to realize the projected growth of 4 to 5 percent.¹⁹ To keep energy assets within Russian control while simultaneously maintaining a relationship on relatively good footing with China, the Russians have started to pursue a two-pronged strategy when needed: let Beijing provide the financing while Moscow maintains the majority share.

The deal between Rosneft and Sinopec should be seen in context of this. What the deal means is that Russia and China have found a compromise where both can realize short-term rather than long-term gains. Long term-gains for China means having a controlling share over

¹⁷ "TNK-BP Agrees to Sell Russian Production Unit to Sinopec," *Global Insight*, n.d. (same-day analysis)

<<http://www.globalinsight.com/SDA/SDADetail6181.htm>> (November 7 2006).

¹⁸ It should be noted that Russia may use its arms-exports as a lever on China as well. See Blank, "China, Kazakh Energy, and Russia: An Unlikely M  nage    Trois," p. 107.

¹⁹ The EC Delegation to Russia Website, Energy Section, May 2005 <http://www.delrus.cec.eu.int/en/p_217.htm> (November 15 2006).

the ownership of wells, pipelines, and other means of energy transportation. Russia, in turn, wants complete control over its energy industry and retains its near monopoly status over Central Asian, Caucasian, and Caspian energy resources. These interests conflict and a viable solution seems distant considering the growing competition over energy resources, and the above-mentioned factors. However, a compromise was struck because neither side wants to jeopardize bilateral relations over an energy asset that is worth less than a reversal of the strategic partnership.

It is helpful to distinguish this case from the 2002 case when the Russian Duma blocked CNPC's purchase of Slavneft. On that occasion, a majority share of 74.95 percent was auctioned out, meaning the winner would control the company and its assets. In the Sinopec-Rosneft case, Moscow still retains the controlling share. Slavneft also differs substantially from Udmurtneft; while the latter possesses fields said to be in decline and is a relatively minor asset, Slavneft was the largest asset the Russian government still held at the time. This explains why the Russian Duma did not interfere this time and it also points to long-term thinking from the Russians.

The "knife-fight" did not happen because Beijing signalled its intention to surrender early on. As it signed a MOU with Rosneft in March specifying that the Chinese would carry all the risks involved while Rosneft would get the controlling share, there were few reasons for the Kremlin to miss out on this opportunity. Both parties knew that a compromise needed to be struck sooner or later, not least because of the symbolics involved and to keep the strategic partnership from reversing. Indeed, despite the consistent use of rhetoric of a "flourishing partnership" statements started to pour out of Beijing in early March that it was losing patience with the Russians in the energy sector. On March 8 this year, the vice-director of China's National Development and Reform Commission, Zhang Guobao, revealed in an interview with Interfax that Russia had, "complied with commitments on oil exports by rail to China, but as for cooperation in other areas, there had been a lot of contact and communication, but little actual progress."²⁰ This rare statement was likely intended to put pressure on Russia ahead of the tender for Udmurtneft and to get its signature on the MOU. Besides, later in the same month the two parties also adopted the declaration "Russia, China support energy diversification" specifying increased strategic cooperation in this sphere.

In view of signs in early March that the Chinese were losing patience, and considering the deteriorating ties between Russia and the West, the Kremlin could hardly afford losing its Chinese partner and be isolated.

²⁰ "Interview with NDRC Vice Director Zhang Guobao," *Interfax China*, March 8 2006.

Not to mention the counterfactual situation and what could have happened if Moscow had blocked Sinopec's bid, which would have involved a significant risk for Russia as it could have been the straw that broke the camel's back. In fact, Russia could not have gotten a better opportunity to give in. This agreement was essentially as much of a win-win situation that could possibly be achieved within the "zone of possible agreements" between the two.

The agreement should also be seen in context of rapidly improving relations between China and Russia since 2003-2004, when Russia started to turn its back towards the United States and re-align with China. Both want internal stability and self-development, and neither of these interests is possible to realize without a healthy relationship with each other. China needs energy, arms, and raw materials in the pursuit of its modernization-program while Russia needs hard-currency, export diversification, and assistance in keeping its former satellite states within its orbit and away from Western influence. This is to retain access to energy and bases, achieve economic benefits, and use these states as buffers. Both also have a vested interest in containing Islamic radicalism: China in Xinjiang, Russia in the North Caucasus as well as jointly in Central Asia through the Shanghai Cooperation Organization. In the best of worlds, a compromise could be reached where both make incremental concessions. China could promote a diversification of its imports from Russia and purchase other items besides raw materials, while Russia could give increased entry to Chinese energy-investors.

In the end, however, the historical strains between the two together with Russia's use of energy as a foreign policy tool and the strategic interests involved suggest that it will take a while before China acquires a majority share in Russian energy assets. This will also most likely be a persistent feature in the times to come. As Putin leaves office after the 2008 presidential elections he is likely to install persons perpetuating the Kremlin's policy of retaining access to energy resources. Two such potential candidates are the Chairman of Gazprom, Dmitry Medvedev, and Defense Minister Sergei Ivanov. Thus, even if the Sinopec-Rosneft deal should be seen as one step forward in Sino-Russian energy relations one should not, at least in the short term, look at it as a breakthrough in Sino-Russian energy relations.

Kyrgyzstan's Unfinished Revolution

*Alisher Khamidov**

Many view Kyrgyzstan's newly adopted constitution as a triumph of democratic forces. But a closer scrutiny reveals that informal localism and kinship ties have played a decisive role in the opposition's ability to pressure the President to consent to constitutional changes. The growing role of kinship and localism networks has both positive and negative consequences for Kyrgyzstan.

A sustained protest in Bishkek's Ala-Too Square, lasting from November 2-9, 2006 has compelled the Kyrgyz President Kurmanbek Bakiyev to accept constitutional changes that transferred some of his powers to the parliament. Under the new constitution, the president loses the power to select members of the government. A political party that holds the most seats in parliament has the right to appoint the prime-minister and cabinet members. In addition, the new basic law transfers responsibility for oversight of the National Security Service from the president to the prime-minister. The parliament has obtained powers to appoint regional judges as well.

The constitution also mandates an expansion of parliament to 90 members from the current 75. Half of the MPs will be elected by proportional representation from party lists, and the rest from single-mandate constituencies. The expansion is due to take effect when the mandates of the sitting MPs expire in 2010.

Opposition leaders hailed the adoption of the new constitution as a triumph of democratic forces. But a careful scrutiny of early November developments reveals that there were more than just democratic slogans and motives that inspired the opposition's supporters.¹

A number of factors explain the Kyrgyz opposition's success. First, the Kyrgyz opposition benefited from the weakness of the central

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¹ Interviews with some supporters of opposition forces revealed that they did not really know what they were protesting for. People who knew had a vague idea about concrete opposition demands.

government and its security apparatus.² Second, the opposition was far more well-organized and funded than was the case during the Tulip Revolution of 2005. "For Reforms!," a coalition of opposition forces, was established as a structure with clearly delineated tasks and coordination mechanisms. One remarkable example of its organized character is the pup-tents, traditional Kyrgyz yurts, and portable toilets set up on the Ala-Too square. Opposition supporters were also far more well-disciplined than in previous cases, a fact that prevented looting, destruction of property and severe clashes.

Third, the opposition has put forward clearly-formulated and feasible objectives and employed an effective media strategy. But most importantly, the opposition has managed to build pressure on Bakiyev by mobilizing and sustaining protests involving several thousand supporters for several consecutive days. The pressure on Bakiyev mounted each day. At the peak of protests, the opposition managed to mobilize more than 10 000 people.

The participants in the protests represented all generations and most social groups. To be sure, there were genuine supporters of democracy among crowds at Ala-Too square. But the majority of protesters were tied to influential leaders of the opposition through influential kinship or localism ties. Most protesters gathered on the Ala Too square to support "their man" in Bishkek.

As a result, the opposition crowds represented various regions of Kyrgyzstan. For example, Almazbek Atambaev, a rich industrialist, brought in his supporters from Alamedin region of Chui province. Residents of Aksy region came to support Azimbek Beknazarov, their representative in Bishkek. Omurbek Tekebaev, former speaker of Kyrgyz parliament, brought in his supporters from his hometown Bazarkorgon and Jalal-Abad. Melis Eshimkanov, an MP and owner of the oppositionist newspaper "Agym" brought in his supporters from Naryn province.

The opposition's success was also due to generous financial backing that came from such figures as Almazbek Atambaev, Omurbek Babanov, Temir Sariev, wealthy industrialists and affluent businessmen who have mobilized supporters from their home towns in the North, employees of their vast holdings, their relatives and friends.

These mobilization strategies sharply contrasted with the chaotic and poorly coordinated measures adopted by Bakiyev and his supporters to counter the opposition. Several hundred Bakiyev supporters staged anti-opposition protests in Bishkek. But the thousands of supporters of the "For Reforms" coalition vastly outnumbered them.

² The weakness was demonstrated on November 3-4 when several police officers charged with the defense of the Kyrgyz government's building switched sides and joined the opposition forces.

In an early November effort to cut support for the oppositionist forces, the Bakiyev administration attempted to bloc the main-highway between North and South on a lousy pretext of planned repair works. But it was too late, the opposition supporters came from all over Kyrgyzstan and not only from the South.

The recent Kyrgyz protests once again highlight the fact that localism networks and kinship ties remain a potent force in politics. Such networks greatly benefited from two key processes.

Among the underlying reasons that explain the success of the Kyrgyz mobilization are the privatization and decentralization processes that have occurred in Kyrgyzstan in the past 10 years. Privatization and decentralization reforms under former President Askar Akaev produced wealthy individuals and local networks that have gained significant autonomy from central authorities. Atambaev, Sariev, Babanov and other influential leaders of the opposition have made fortunes on the chaotic mass privatization processes that occurred in Kyrgyzstan during the 1990s, and have today built vast financial conglomerates. As a result, Atambaev owns several plants in the North. Babanov, in turn, owned NK "Alliance," an oil company, which he reportedly sold to Russian GazProm for US\$100 million in August 2005. Babanov also owns NTS, an independent TV-station that offered extensive coverage for opposition activity.

Many of these entrepreneurs have become disenchanted with the distribution of property triggered by the Tulip Revolution in March 2005. What many of them lamented was the growing role of President Kurmanbek Bakiyev's family on economic and political life in the country.

In an effort to put checks on the growing influence of President Bakiyev's family, these figures have increasingly turned to local grassroots organizations for support. The "For Reforms!" coalition relied on powerful networks of informal leaders of *ail okmotu*, or the local governments in the North and South, which have grown in influence thanks to former President Akaev's decentralization reforms. These individuals played a decisive role in helping the opposition coalition to organize transportation from other regions and arrange food and lodging for protesters.

The success of the early November events in Kyrgyzstan carries powerful lessons for the country's future development. On the positive side, the protests demonstrated that the alliance of influential and autonomous actors who rely on local and kinship networks can put checks and balances on growing authoritarianism. The protests also showed an ability of the opposition alliance to transgress regional divisions. On the negative side, the recent events further promote

“hyperdemocracy,” in which self-interested wealthy actors can rely on mass mobilization to promote their narrow agenda.

Kyrgyzstan’s new constitution has reduced the president’s powers defusing a political crisis, but the new constitution does not resolve the underlying political problems. In the view of Kyrgyz lawyers, the powers assigned to the president and to the parliament are not sufficiently well delineated and this may create tensions. In particular, the new constitution does not clearly state who is to appoint the heads of regional administrations. A number of parliament members are already disputing the recent presidential appointment of a new head of Chui administration saying that the appointment of regional governors falls under the parliament’s jurisdiction. In addition, the new constitution does not provide a legal basis for coalitions among winning parties in the parliament in order to form a government.

Most importantly, it is not clear how the provision of the new constitution will be put into practice. Observers worry that the implementation of the new provisions will soon create serious tensions between the president and parliament. Against this backdrop, some members of President Kurmanbek Bakiyev’s administration are willing to see the current parliament dissolved. They argue that dissolution of the current parliament can help pro-governmental forces to form a political party and dominate the new parliament.

However, on December 4, Bakiyev told parliament members that he objects to the dissolution of the country’s parliament. As he noted, this is “in spite of the fact that several cabinet members are calling for the dismissal of the MPs and their view is shared by the public.”

While this provides assurances to the MPs, Bakiyev is not keeping his earlier promise of not persecuting members of the opposition movement. In the weeks that followed the signing of the new constitution, the Kyrgyz authorities have launched a “witch-hunt” campaign that now threatens the accords signed between the opposition and President. The “For Reforms!” coalition held a press conference recently, where they blamed Bakiyev for reneging on his earlier promise. They complained that their relatives and some rank-and-file opposition supporters are now being persecuted by the authorities for their support to the opposition movement. For example, pro-presidential forces are collecting signatures to recall Omurbek Tekebaev’s seat in the parliament; the tax police has arrested the wife of one of the opposition’s sponsors on the pretext of tax evasion; the head of NTS, a private TV station owned by Omurbek Babanov, is now being interrogated by the security services; some members of the “For Reforms!” movement are called to the prosecutor’s office for interrogations in connection with the tape recording that allegedly called for the overthrow of the government in early November;

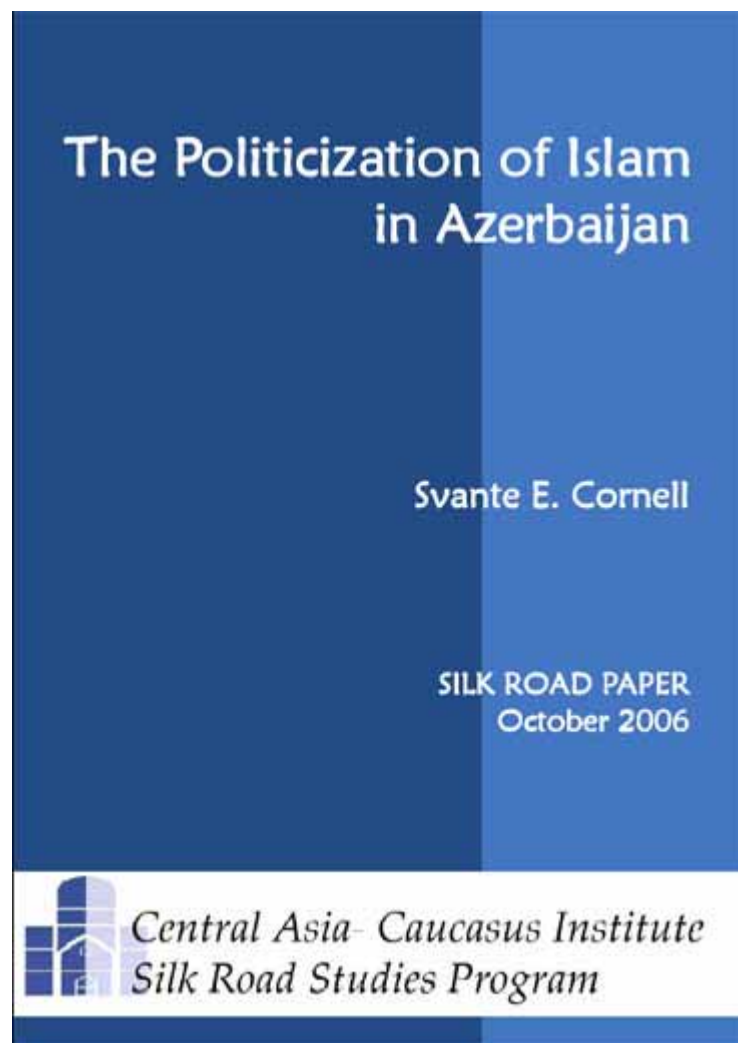
Edil Baisalov, a prominent member of "For Reforms!" was beaten recently and there has been no thorough investigation into this incident.

The cold weather in Bishkek may prevent the opposition movement from gathering the supporters to protest the recent moves by the administration. If the President does not respect the clauses of the accords, in early spring 2007 he will face crowds of opposition protesters on Ala-Too square again. This time, they will demand his resignation.

Silk Road Paper, October 2006

The Politicization of Islam in Azerbaijan
Svante E. Cornell

This 75-page Silk Road Paper analyzes the increasing Islamic revival in Azerbaijan, as well as the potential for politicization of Islam. The report discusses the background and reasons for increasing Islamic sentiment in the country, as well as external influences linked to this phenomenon and government policy toward the issue. The paper is available from the offices of the Joint Center cited on the inside cover of this issue, or freely downloadable in PDF format from either www.cacianalyst.org or www.silkroadstudies.org.



Pakistan's Kashmir Policy

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The conflict over the princely state of Jammu and Kashmir has its origins in 1947 when British India was partitioned into two successor states of India and Pakistan, based on the acceptance of the two nation theory. Muslim majority states under dominion rule were allowed to exercise the right to join either India or Pakistan, but in case of the 565 princely states the decision rested with the rulers. Jammu and Kashmir (J&K), a Muslim majority state with a Hindu ruler geographically lay between the two countries. When in October 1947 an indigenous uprising supported by Pakistan tribesman occurred in J&K, and the freedom fighters were advancing on the then capital Srinagar, India rushed its forces and made the ruler, Maharaja Hari Singh, sign the Instrument of Accession. From the resulting Indo-Pakistan war of 1947-48, Kashmir was divided between Azad Kashmir and the Indian administered Kashmir which constituted nearly two thirds of the state. The Karachi agreement brought the war to an end in July 1949 by creating the cease-fire- line. After the conflict in 1971, the cease fire line was re-designated as the "Line of Control" as specified in the Simla Agreement.

The right of self-determination was promised to the Kashmiris by India and when it decided to take up the matter to the UN, this pledge was reaffirmed by it through two Security Council Resolutions, UNSCR 47 of 1948 and UNSCR 80 of 1950. It was presumed that the control of the state of J&K to India was an interim arrangement and the ultimate fate of the state was to be decided through a free and impartial plebiscite to determine the wishes of the people. India, however, on one pretext or the other, has since reneged on its commitment of holding a plebiscite. India wants total control of the region.

Pakistan's position has been that J&K is disputed territory and India is in unlawful occupation of it and that the right of the people to determine their future on the basis of UN resolutions must be granted to them. Pakistan's claim on Kashmir is based on the states Muslim majority population and its geographic contiguity, the same principle that

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was applied in the creation of India and Pakistan at the time of independence in 1947.

Regrettably, ever since independence, Kashmir casts a long shadow over the entire region by distorting priorities of the two major countries in terms of development and fighting poverty to diverting resources on defense. It has bedeviled their relations and has been responsible for three wars and two major skirmishes between them. The nuclear-armed protagonists came close to fighting one another as recent as December 2001, when India in response to a terrorist attack on its parliament mobilized its forces on the border. The nuclear factor and intense pressure from the United States and the international community averted a catastrophic outcome.

From a Pakistani perspective Kashmir is the core issue and the root cause of tension with India. It maintains that India is in unlawful occupation of J&K and it is the right of the people of the state to determine their future in accordance with their aspirations. Pakistan has made great sacrifices to pursue a pro active Kashmir policy and its defense and foreign policy is significantly influenced by this attitude.

Pakistan, until recently, steadfastly adhered to the traditional position of promoting the right of the people to determine their future on the basis of the UN resolutions and considered it as an anchor of its Kashmir policy. However, President Musharraf has shown considerable flexibility in his approach towards resolving the Kashmir dispute and proposed several options for consideration. Here, the nuclearization of South Asia, impact of events of 9/11 on the region, demands of globalization and the destabilizing effect on the internal polity for the support to militants were major factors that brought about a change in Pakistan to seek a path of cooperation and engage in a peace process. For India too the consequences have been no less grim, although being a much bigger country with more resources it can mask the real picture. Gross human rights abuses by its security forces to hold Kashmir down detract from the secular and democratic character of India. New Delhi feels that its clout with major powers is sufficiently high to contain any adverse fall out from human right violations. Nonetheless, Kashmir remains a serious barrier to actualization of India's full economic and political potential and is a black spot on its otherwise ascending international image.

External and internal factors led both governments to agree to a "composite dialogue" nearly four years ago. Three rounds of talks covering an agreed basket of subjects ranging from Jammu & Kashmir, peace and security, resolution of Siachen and Sir Creek and economic and cultural issues have been completed. As the fourth round was due to take place in July 2006, an unfortunate terrorist attack on a train near Mumbai killed hundreds of innocent passengers. India, without any concrete evidence blamed certain elements in Pakistan for the incident and

suspended the dialogue process. The impasse was only broken when the President of Pakistan and the Prime Minister of India, meeting on the side-lines of the Havana Non-Aligned summit, decided to resume the composite dialogue and reiterated their commitment to the peace process. It is significant that both leaders also agreed to an institutionalized framework for combating the common threat of terrorism.

Both India and Pakistan in the course of the last three rounds have been able to develop certain conventional and nuclear Confidence Building Measures (CBM's) aimed at regulating the dynamics of their security competition. Some progress has also been made in creating conditions for developing economic and cultural interaction between the two parts of Kashmir. For example, the agreement on a cease fire along the 750 kilometer line of control and Siachen glacier is still holding. A host of CBMs covering travel between the two sides of Kashmir and allowing leaders of the resistance movement (APHC), and other Kashmiri leaders, to travel to Pakistan has had a favorable impact in reducing tensions. Nonetheless, lack of progress on settlement of the Kashmir dispute as well as relatively less difficult issues such as Siachen, Sir Creek and the Baghliar dam remain a major impediment towards normalization of relations between the two countries.

Pakistan is not prepared to accept the status quo as a permanent solution to Kashmir because that is the problem and cannot be the solution. It realizes India's constraints and sensitivities to any major territorial adjustments. As a compromise, "self-governance" has been suggested for Kashmir that would give the state of J&K a special status in the Indian constitution. Islamabad maintains that details of this proposal can be worked out in consultation with the resistance groups, represented by APHC and other elements in J&K and Pakistan. It aims at devolution of maximum administrative, financial and executive powers to the State, while retaining only communications, defense and foreign affairs with India. This could give Kashmiris a sense of participation in running their affairs.

Withdrawal of Indian military from J&K is another major precondition that Pakistan and the APHC is demanding for moving the peace process forward. India so far has been unwilling, as it does not want to loosen its authoritarian grip on the people. Any viable solution to the Kashmir conflict will need to address not only the interests of India and Pakistan but more so of the Kashmiris. Bringing the militants into the political process at some stage would also be necessary for ensuring durable peace.

Meanwhile political, economic and social institutions in the entire territory of J&K should be developed for the benefit of the people. For this, soft borders and easing of visa restrictions is essential. Coordination and linkages between the legislative assemblies of the two parts of

Kashmir will strengthen political ties. Development of common tourism, energy and infrastructural projects accompanied by trading and cultural activities will place the peace process on a sound foundation and bring about an economic regeneration of the region.

There is a justifiable expectation, both among people on both sides of Kashmir and among the people of India and Pakistan, that the two governments would make substantive progress on the resolution of disputes and take effective measures to improve the lives of the people. There is a general awareness of the complexity of the Kashmir problem but given political will it is surely possible to make significant progress in the resolution of the dispute.

Delhi, after 9/11, has exploited the transformed global situation to project the Kashmir problem essentially as terrorist related. For India to keep harping on cross border infiltration and trying to view Kashmir through the prism of terrorism would be a travesty of truth and would keep India away from finding a viable solution to the protracted conflict. This policy may have found resonance in Western capitals and was an expedient measure to keep pressure on Islamabad to stop supporting the Kashmir cause, but has not worked. This is because it fails to address the root cause for the deep alienation of the people, especially those living in the Valley and in Muslim majority districts of Jammu. Here, human suffering is wide spread, gross atrocities are committed by security forces and a large presence of the military and para-military forces approximating 600 000 to 700 000 enforce a coercive regime on the people. This generates a cycle of violence, based on the action- reaction syndrome. In reality, Kashmir represents a live, on going, human problem and even if Pakistan were to totally withdraw and put the question of J&K at the back burner, insurgency will not go away. Just as the insurgency in Palestine would not fade away or the Northern Ireland insurgency would not have ceased until a resolution satisfactory to all major stake holders was found. India's tactics of using the terrorism card has found resonance in the West and it may be used as a tool for political expediency to pressurize Pakistan from supporting the Kashmir cause, but it would not work in the longer term.

There exists also an underlying fear among the Indian establishment that softening of borders in Kashmir and relaxing the overall visa regime between the two countries would open up new linkages between the Indian Muslims and Pakistanis. This, in turn, would revive old ties between the two sides of Kashmir which would strengthen Pakistan's position in the region. This presumption and line of argument does not hold to close scrutiny. On the contrary, continued oppression of Kashmiris and restrictions on their travel could alienate not only the Kashmiris but the Indian Muslims as well.

What is needed is to create a climate of trust and understanding and move forward on the resolution of the dispute so that Kashmir from being the most divisive issue becomes the bridge for future partnership between India and Pakistan.

Pakistan and the Shanghai Cooperation Organization

*Rizwan Zeb**

The Shanghai Cooperation Organization (SCO) has in the last few years emerged as an important actor in the international order. Besides bringing together two major Eurasian powers, China and Russia, the organization has recently granted observer status to three additional regional powers, India, Pakistan, and Iran. A number of Western, and especially American scholars, view the SCO as a challenge to American interests. It has been described as an enigma, a security organization, a regional forum, an anti-terrorism coalition, and as a Russian and Chinese led alliance created to counter U.S. hegemony.¹ Some have described it as the beginning of a new Warsaw Pact-type organisation (or a “NATO of the East”). What is even more worrisome for this group of analysts is the dominant role of Russia and especially China in the SCO. Recent events in the region have also exacerbated these fears. With the Uzbek government’s decision to align with Russia and China and suspend the partnership with the U.S. following the events in Andijan, the SCO firmed its grip on Central Asia.

The SCO’s position regarding a number of regional issues, especially Iran’s nuclear program, also run counter to America’s agenda for the Eurasian region. The invitation of Iranian President Ahmadinejad to attend the 5-year anniversary summit in June resulted in sharp criticism from Washington. U.S. Secretary of Defence Donald Rumsfeld is on record saying that it “strikes me as passing strange that one would want to bring into an organization that says it is against terrorism one of the

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¹ Major Jefferson Turner, “What is Driving India’s and Pakistan’s Interest in Joining the Shanghai Cooperation Organization?” *Strategic Insight* 4, 8 (August 2005).

leading terrorist nations in the world.” It seems that the SCO is set to play a major role in the emerging geo-political fault lines in the region, and indeed, in the world.²

Pakistan, which currently is an observer, cannot remain distant from such an important organization. A number of geo-political and geo-economical realities necessitate that Islamabad should make every effort to join this group. In this regard, the idea put forward by President Musharraf of using Pakistan as an energy corridor for the SCO member countries merits serious attention.

This article analyses the reasons why Pakistan should be considered an ideal candidate for SCO membership. Although the SCO has clearly stated that it does not plan to accept new members in the near future,³ this should not discourage observer countries from pursuing their case for membership, especially if this is to the ultimate benefit of both candidate and member countries. To better understand and analyze this, the article begins with an overview of the SCO, the post 9/11 developments, how the SCO countries reacted to it, and Pakistan’s potential role in the emerging geo-political and geo-economical landscape in the region.

From Shanghai 5 to the SCO: An Overview

The Shanghai Cooperation Organisation (SCO) has six permanent members (China, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan), and recently accepted Iran, Pakistan, India and Mongolia as observers in 2005.

According to the official website of the SCO, the organization strives to accomplish the following objectives: strengthen mutual trust and good-neighbourly relations among member states; promote their effective cooperation in political affairs, economy and trade, scientific-technical, cultural, and educational spheres as well as in the energy, transportation, tourism, and environment protection fields; jointly safeguard and preserve regional peace, security and stability; and strive towards the creation of a democratic, just, reasonable new international political and economic order.⁴

The roots of the present day SCO lay in an agreement signed by Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan in 1996 in order to solve outstanding border disputes which plagued bilateral relations.⁵

² Rizwan Zeb, “Pakistan’s Bid for SCO Membership: Prospects and Pitfalls,” *Central Asia Caucasus Analyst*, July 26 2006.

³ Zhao Huasheng, “The Shanghai Cooperation Organization at 5: Achievements and Challenges Ahead,” *The China and Eurasia Forum Quarterly* 4, 3 (2006).

⁴ For details see SCO’s website at <www.sectsco.org/html/00035.html> (October 3 2006).

⁵ The document “Agreement on Strengthening Military Confidence in Border Areas” was signed on April 26, 1996 in Shanghai, and this group later became known as the Shanghai 5 or S-5. According to this agreement, the signatory states agreed that troops stationed in

During the third summit in Almaty in June-July 1998, the primary focus was on Afghanistan, the Taliban, religious radicalism and terrorism. The fourth summit was held in Bishkek just after the American-led NATO intervention in Yugoslavia on August 25, 1999. Moscow and Beijing opposed this intervention, as they feared similar actions could be taken in their own backyards. Since it lacked a UN mandate, both termed the US' involvement as being "threatening and alarming for the international system."⁶ It was also around this time that the Shanghai 5 member countries started toying with the idea of a revival of the Silk Road,⁷ and subsequently increased interdependence in the trade and economic spheres. During the fifth summit held in December 2000 Uzbekistan was added as the sixth member of the organization.

The transformation from the Shanghai 5 into the Shanghai Cooperation Organisation occurred as a result of a declaration signed in June, 2001 in Shanghai by all five heads of state and the new member Uzbekistan. At that same summit another important document was also signed—The Shanghai Convention on the Fight Against Terrorism, Separatism and Extremism. It has been appropriately pointed out that the timing of the agreement, just three months prior to the tragedy of September 11, also made the SCO the pioneer organization in fighting terrorism on the international level.⁸ Finally, in June 2002 the Charter of the SCO was signed at a meeting in St. Petersburg between the heads of the SCO member states.⁹

SCO and the post-9/11 Developments in Central Asia

Soon after the horrific attacks on 9/11, the U.S. realized that any offensive against the Taliban would not succeed without the support of the Central Asian republics (CARs). U.S. Assistant Secretary of State for European and Eurasian affairs, Elizabeth Jones, noted that the CARs "will play a significant role" in the war against terrorism."¹⁰ Both Moscow and Beijing understood the necessity of this development, yet the establishment of American military bases in the region added to their national security concerns and threat perceptions. Beijing sees a long

the border areas would not attack each other, notify the other side of planned large-scale military exercises, invite observers from the other side to military manoeuvres and exercises, and to encourage friendly contacts among the military personnel. For details see, Rizwan Zeb, "China and Central Asia," *Regional Studies* 23, 4 (Autumn 2005): 28.

⁶ *Ibid.*

⁷ Major Jefferson Turner, "What is Driving India's and Pakistan's Interest in Joining the Shanghai Cooperation Organization?"

⁸ For details see the SCO website, <www.sectsc.org/html/00035.html> (October 16 2006).

⁹ Rizwan Zeb, "China and Central Asia," p. 22-23.

¹⁰ Rizwan Zeb, "USA and Central Asia and the Caucasus," *Regional Studies* 22, 1 (Winter 2003-04).

term U.S. military presence in Central Asia as continued American encirclement of China.¹¹ Moscow, in turn, defines the region as its “near abroad,” and as a matter of policy wants to have the CARs under its influence. Although the Russian President Vladimir Putin was one of the first leaders to declare his support for the U.S. after the attacks, the Russian leadership was also concerned about America’s presence in this region.¹³

The improvement in relations between the U.S. and the CARs was viewed warily by the SCO. As Stephen Blank noted: “Its [the SCO’s] failure to act effectively in this war [on terrorism] not only highlights its failure to be a meaningful regional provider of security in Central Asia, it also reflects the erosion of Sino-Russian cooperation and the continuing failure of Central Asian states to devise a viable regional security mechanism.”¹⁴ However, the wave of coloured revolutions that struck the CIS space worked in favour of the SCO’s interests. The U.S.’ vocal support for the revolutions added to the concerns of the CARs’ leadership. This eventually led to the SCO’s demand at the 2005 heads of state summit that the U.S. should set a timetable for vacating its military presence at bases in SCO member states.¹⁵ This summit marked a comeback of Chinese and Russian regional influence.¹⁶

Moreover, during the heads of state summit in 2005, it was emphasized that the SCO should play a larger role in the international system. Pakistan, along with Iran and India, were also admitted to the SCO as observer states in the course of that meeting.¹⁷

In a further sign of improving Russo-Uzbek relations, Russia and Uzbekistan conducted joint war games on September 19-24 aimed at training the troops from both countries against a large-scale Andijan-style uprising. This was followed by “Peace Mission-2005” a joint Sino-Russian military exercise held on August 18-25, off the east Russian seacoast and Shandong Peninsula in northeastern China.¹⁸ The war

¹¹ Charles William Mayes, “America Discovers Central Asia,” *Foreign Affairs* (March/April 2003): 129.

¹³ For details see, Rizwan Zeb, “Russia and Central Asia,” *Spot Light on Regional Affairs*, (Nov-Dec 2004).

¹⁴ Stephen Blank, “The Shanghai Cooperation Organization and Its Future,” *Central Asia Caucasus Analyst*, May 22 2002.

¹⁵ Major Jefferson Turner, “What is Driving India’s and Pakistan’s Interest in Joining the Shanghai Cooperation Organization?”

¹⁶ Rizwan Zeb, “China and Central Asia,” pp. 23-24.

¹⁷ *Ibid.*

¹⁸ The exercise had three components: (a) focus on counter-terrorism (b) offshore blockades, amphibious landings, and evacuations, and (c) live-fire exercises and joint command procedures. Peace Mission-2005 was held under the framework of the Shanghai Cooperation Organisation. It is the first time that exclusively Russo-Chinese military exercises took place under the formal auspices of the SCO.

games were also an indirect signal to the Americans that Beijing and Moscow were securing their influence in the region by expanding the SCO from a community of states sharing borders to a regional and collective security system explicitly designed against the United States.¹⁹ In addition, as Stephen Blank has noted: “Although these were ostensibly anti-terrorist exercises (...) these exercises’ scale and scope suggest a large-scale conventional operation rather than an anti-terrorist mission.”²⁰ The year concluded with Uzbekistan signing an alliance treaty with Russia signifying its further distancing from the West.

Pakistan and Central Asia

Islamabad’s initial attempts to establish good relations with the CARs ended with mixed results. Under the shadow of the successful Afghan resistance, Pakistan’s desire to have good relations with the newly independent CARs was seen as an attempt to build an Islamic block. This did not find many supporters in the region. As such, Islamabad’s ambitions to form an Islamic bloc or, “a Muslim security belt stretching from Turkey to Pakistan with Central Asia as the ‘buckle,’ to provide both ‘strategic depth’ and needed allies in her policy struggles over Afghanistan and Kashmir,”²¹ as described by an American analyst, failed to materialize. Later Islamabad’s support to the Taliban, which the CARs opposed and perceived as a threat to their national security, created further problems, which became the primary reason why Pakistan’s bid for observer status in the SCO was rejected.

The War Against Terror, Pakistan and the SCO

After September 11, Islamabad reassessed its policy and decided to terminate its support for the Taliban and instead become a frontline state in the “war against terrorism.”²² Following these developments, Pakistan,

¹⁹ Stephen Blank, “The Central Asian Dimension of Russo-Chinese Exercises,” *Central Asia Caucasus Analyst*, September 21 2005; also see Erich Marquardt and Yevgeny Benderersky, “The Significance of Sino-Russian Military Exercises,” *The Power and Interest News Report*, September 14 2005, <www.pinr.com/report.php?ac=view_report&report_id=366> (November 7 2006).

²⁰ Stephen Blank, “The Central Asian Dimension of Russo-Chinese Exercises”.

²¹ Major Jefferson Turner, “What is Driving India’s and Pakistan’s Interest in Joining the Shanghai Cooperation Organization?”

²² Islamabad’s contribution in the WoT is well documented and the allies have praised its role in it. According to a report published at the time of the American President’s visit to South Asia: “Pakistan has to date arrested more than 700 members of Al-Qaeda and killed a further 850 of them. Pakistan’s security forces, meanwhile, have suffered a loss of 350-400 personnel, with injuries to another 760 in this war. Some of the high-profile terrorists arrested include Abu Zubayda (March 2002), Ramzi bin Alshibh (September 2002), Khalid Sheikh Mohammad (March 2003), Mustafa Ahmed Al-Hawsawi (March 2003), Mohammad Omar Abdel-Rahman (March 2003) and Abu Faraj al-Libbi (May 2005).

along with Iran and India, was accepted into the SCO as an observer in 2005. However, many believe that the inclusion of Islamabad was only a “show of force” by China and Russia, since this expanded the SCO to include five nuclear powers (including the observers) encompassing nearly half of the world’s population.²³

In addition, after Pakistan's membership in the ASEAN Regional Forum (ARF), the SCO became the second security forum which included both Pakistan and India. These frameworks can be used to discuss bilateral issues between the two rivals at multiple levels on the sidelines of official meetings. Since the initial purpose of the Shanghai 5 was to resolve border issues between China and Central Asian states, the organisation has extensive experience in the resolution of boundary dispute. If made members of the SCO, India and Pakistan could study the framework used by China and the CARs for settling these types of problems and see if they can utilize it in resolving issues such as Sir Creek. Under the SCO framework, Pakistan could potentially expand its defence and security relations with Russia, which have remained underdeveloped due to the Indo-Russian strategic relationship and India-Pakistan hostility. The SCO may also contribute significantly to the further development of Pakistan’s anti-terrorism capabilities, especially through the SCO Regional Anti-terrorism Structure (RATS). Although Pakistan has signed bilateral anti-terrorism cooperation agreements with some SCO member states, RATS could help Pakistan to institutionalize anti-terrorism cooperation in a more comprehensive manner and on a wider scale.²⁴

Pakistan: Inching Towards SCO Membership?

Against this backdrop, President Musharraf accentuated Pakistan’s strong credentials for securing full membership in the Shanghai Cooperation Organisation at the SCO summit in Shanghai in June, 2006: “We hope that the SCO member-states will seriously consider our bid for full membership of this organization,” and that “Pakistan could play the role of a trade-economic corridor on the SCO territory and will be

Pakistan has also helped freeze the bank accounts of Al-Qaeda and its affiliated welfare organisations, such as the Al-Rasheed Trust and the Rabeta Trust.” For a detailed and comprehensive account of Pakistani contribution to the WoT see; Ghani Jafar and Rizwan Zeb, “Pakistan: Countering Global Terrorism,” IRS, Islamabad, 2006.

²³ Willy Lam, “Hu’s Central Asian Gamble to Counter the U.S. Containment Strategy,” *China Brief* 5, 15 (2005).

²⁴ Fazlur Rehman, “Pakistan Embraces the Shanghai Spirit,” Institute of Strategic Studies, Islamabad,
<www.issi.org.pk/journal/2005_files/no_3/articles?a2.html#top> (inaccessible on November 25 2006).

committed to the organization's charter"²⁵. "Pakistan provides the natural link between the SCO states to connect the Eurasian heartland with the Arabian Sea and South Asia," he said, adding that: "We offer the critical overland routes and connectivity for mutually beneficial trade and energy transactions intra-regionally and inter-regionally."

At present, Pakistan's overall trade with SCO member states plus observers is far below potential. The realization of this potential is made easier considering Pakistan's affable relations with SCO member states, but trade has so far not reached any notable levels. China is an all-time friend, and Pakistan has civilizational and historical relations with Central Asian states. With past misgivings fading away, these relationships are improving. Russia-Pakistan relations are also on a relatively good footing and this is perhaps primarily due to the personal chemistry between the two leaders. Pakistan and Uzbekistan, in turn, have signed an extradition treaty and invested significant efforts in infrastructural connections. The Almaty-Karachi road via the Karakoram (Almaty-Bishkek-Kashgar-Islamabad-Karachi network) is functioning. The TAP (Turkmenistan-Afghanistan-Pakistan) pipeline project has been revived and top-level visits devoted to this issue are occurring on a regular basis.²⁸ In addition, Pakistan's provision of deep-sea port access is also highly valuable for the CARs ability to ship their products to world markets. Pakistan provides the most expedient modern rail as well as road facilities with relatively short distances. A comparative overview of distances between Islamabad and Karachi and the capital cities of Central Asia as well as existing Soviet era Russian port facilities illustrate this point, as Dr. Aftab Kazi points out, quoting a report published by a Pakistani think tank in 1992³⁰:

"The construction of new Gwadar deep sea maritime port on Baluchistan coast and related connecting routes with Afghanistan actually reduce these distances by approximately 500 km for Pakistan-Central Asia traffic. During his presentation at the Central Asia-Caucasus Institute in summer 2005, Honorable President Hamid Karzai particularly referred to the 32 hours traveling time by road from Karachi to

²⁵ "Pakistan Wants to Become Full SCO member," *Moscow News*, June 15 2006, <<http://feeds.moscownews.net/?rid=1136&cat=871e5a31f6912bb3&f=1>> (November 1 2006).

²⁸ Aftab Kazi, "Pivotal Pakistan: GCAP and the Geopolinomics of Central Asia's Traditional Indus Basin Corridor".

³⁰ Shameem Akhtar, "Strategic Significance of Central Asia," *Pakistan Horizon* 45, 3 (July 1992): 49-56. See also, Aftab Kazi, *ibid*.

Tashkent via Afghanistan. The distance between Karachi to Chaman is in fact longer from Chaman to Dushanbe –via Afghanistan- and the port facility at Gwadar lessens it by approximately 500 km reducing travel time from five to ten hours, depending upon where the journey started.”³¹

A number of other positive developments are underway. Recently, Pakistan, Kyrgyzstan and Tajikistan signed an agreement on electricity exports from Central Asian states in order to supply the present Pakistani shortage. The Russian President, Vladimir Putin, has also expressed his interest in the Iran-Pakistan-India (IPI) pipeline by announcing that Gazprom would be ready to participate in the project. Moreover, Pakistan, China, Kazakhstan and Kyrgyzstan have agreed to initiate a bus service that would not only enhance trade but also be an important tool to promote people-to-people contacts between the four countries.

These positive developments together with the Gwadar project make Pakistan an indispensable link for SCO member states, and should be considered an ideal candidate for membership. Although the Gwadar port primarily is built for economic and trade purposes, its geo-strategic location cannot be overlooked, especially if seen through the prism of any future geo-political competition in the Indian Ocean.

Furthermore, Pakistan, Iran and the CARs are also members of the Economic Cooperation Organization (ECO) with immense potential to contribute to the economic development of the region. Although the ECO has been a victim of cold war rivalries as well as political changes in member countries as a result of the Iranian revolution and Turkey's tilt towards Europe, the basic infrastructure remains in place. If this is coupled with a will to work together, this potential can be realized. In fact, there is an overlap between the ECO and the SCO. Economic cooperation between the two can contribute positively to all member states, especially by linking the Central Asian economies with Iran and Pakistan. This will not only boost Central Asia's economic development but also help resolve a number of challenges such as bringing their economies up to international (Western) standards should they wish to join the WTO. Projects such as the electricity venture, the Trans-Afghan Pipeline, and port access through Gwadar and Chabahar can virtually change the economic and strategic outlook of this region. If this greater economic and security bloc could interact with SAARC (South Asian Association for Economic Cooperation) a substantial contribution could

³¹ Aftab Kazi, "Pivotal Pakistan: GCAP and the Geopolitics of Central Asia's Traditional Indus Basin Corridor".

be made to raise regional prosperity, including for Afghanistan, while at the same time building strong state institutions in member states.³²

Conclusions

Washington is closely monitoring the emergence of the SCO as a regional as well as a global player. As noted by Jefferson Turner: “The implications of the SCO becoming a regional and global powerhouse should concern U.S. policy makers. An SCO expansion to include other regional states risks adding unsettled “frozen conflicts” into the harmony of the organization’s achievements in economic and security agreements. Adding new members also increases the risks of bringing the SCO into direct confrontation with U.S. foreign policy interests in Central Asia.”³³ However the prospects of any direct confrontation or clash between the SCO and the U.S. are remote. Indeed, the SCO has emphasized that it is not against any other country or power.

The recent SCO summit is a hallmark event and will have long lasting implications. It has also set the future course for the organization and its member countries. Pakistan, in keeping with geo-political and geo-economic reasons, cannot ignore these developments, which will fundamentally affect Pakistan’s regional interests. President Musharraf has eloquently presented Pakistan’s case for membership to the SCO. Indeed, his offer of using Pakistan as an energy corridor deserves deeper analysis and thought by all concerned. However, membership may not be imminent for Pakistan, as it has a lot to do on a number of fronts such as terrorism, human, economic and social development.³⁴ Although Islamabad no longer supports the Taliban in Afghanistan and is an active member of the alliance against terror, it is also home to a number of extremist groups that have links with certain Central Asian groups and the leaderships of those countries would like Islamabad to do more. There are reports that at least a few of them still suspect that Islamabad is not doing everything it counter these. This trend can have a negative impact on any bid for SCO membership by Islamabad.

Some Central Asian states are also dissatisfied with Pakistan’s efforts to curb the remnants of the Taliban and Al-Qaeda in Afghanistan, while others have expressed their concerns over its support for U.S. foreign policy in Afghanistan.³⁵ Islamabad has to seriously review its policy options and available choices in this regard. Most important is to focus on

³² Jamshed Ayaz Khan, “Pakistan’s Perspective of the Central Asian Security and the role of the SCO”.

³³ Major Jefferson Turner, “What is Driving India’s and Pakistan’s Interest in Joining the Shanghai Cooperation Organization?”

³⁴ Rizwan Zeb, “Pakistan’s Bid for SCO Membership: Prospects and Pitfalls”.

³⁵ Major Jefferson Turner, “What is Driving India’s and Pakistan’s Interest in Joining the Shanghai Cooperation Organization?”

improving its relations with Moscow. There are reports that in the past, Moscow has either not supported Islamabad's entry into the organization, or wanted both India and Pakistan to be admitted at the same time. The recent improvement in Islamabad-Moscow relations is a good sign. Moscow and Islamabad have to work together to make sure that the chemistry that exists between the two Presidents materializes into a solid relationship. Moscow is too important to be ignored.

Improvement in Pakistan-India relations and Pakistan-Afghanistan relations is also important, for a number of reasons. If Pakistan becomes an energy corridor, it has to have good relations with Afghanistan and India. India cannot extend its trade to Central Asia without a friendly Pakistan, and unless both Pakistan and India have a good working relationship, Afghanistan cannot become a stable and viable state.³⁶ Bad relations not only impacts them but also has a negative effect on the SCO's potential to grow beyond the Central Asian region.³⁷

One keen Pakistani observer of regional and global developments has rightly pointed out, "there is no chance of militaristic NATO vs. SCO battle lines in the region. But inevitably there will be rivalry and competition for sources of energy and pipelines that carry it."³⁸ This increases the need for Pakistan, a designated U.S. non-NATO ally, to make correct decisions.

³⁶ Lately both New Delhi and Islamabad have been accusing each other of meddling in the affairs of Afghanistan. Islamabad claims that New Delhi is using its consulates in Afghanistan to fuel insurgencies in the Pakistani Provinces of Baluchistan and the Northwest Frontier Province.

³⁷ The author is thankful to CEFQ's reviewer for bringing this point to his attention.

³⁸ Tanvir Ahmad Khan, "India, Pakistan and the Shanghai Spirit," *Daily Times*, June 23 2006, <www.dailytimes.com.pk/print.asp?page=2006\06\23\story_23-6-2006_pg3_2> (October 5 2006).

Central Asia and China's Energy Security

*Xuanli Liao**

Due to its geopolitical significance, Central Asia has been the center of intense contestation among the great powers, most notably during the Great Game period between Tsarist Russia and the British Empire in the 19th century. The unexpected collapse of the Soviet Union in the early 1990s once again left a power vacuum in the region, leading some analysts to depict the strategic context as a “new great game” in Central Asia. This renewed interest in the region is best explained by its rich reserves of petroleum and natural resources, which has attracted significant attention from the outside world, particularly among great powers. This includes China which started to explore these opportunities soon after it became a net importer of oil products in 1993. However, China's initial involvement in the region was not primarily driven by energy security, but rather as a means to enhance the security of its western border. Nevertheless, China's energy diplomacy towards Central Asia has indeed enabled it to gain a strong foothold in the region over the past decade, and Central Asia is today one of the most dynamic locations for Chinese oil companies operating abroad.

China's entry into the region was not met without resistance. Both the United States and Russia have vested interests in the same energy resources and their interests often conflict. As such, China's emergence in Central Asia will prove to have major implications, both in terms of geopolitics and in fulfilling China's energy needs. This article maintains that in the years ahead, this particular strategic context will pose major foreign policy challenges to Beijing and its relations with the other major powers which are similarly competing for influence in the region, most notably Russia and the United States. The discussion below examines energy as a factor in Sino-Central Asian relations since the mid-1990s, and seeks to identify the motives driving China's engagement with its Western neighbors.

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China's Entry into Central Asia

China's official engagement with Central Asia started immediately after the disintegration of the Soviet Union. On December 27, 1991, China was among the first countries to recognise the five new independent states of Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan, and Turkmenistan, and only a week later, from January 2-6, 1992, Beijing formally established diplomatic relations with the successor states.¹ Yet despite Central Asia's well-known geopolitical significance and energy resources, China initially seemed hesitant in engaging with the region. Rather, it acknowledged Russia's continuing dominance and believed that the "Russian factor" would play a positive role in securing regional stability for Central Asia.²

It was not until April 1994 that the Chinese Premier, Li Peng, made an official visit to Central Asia, visiting Kazakhstan, Uzbekistan, Kyrgyzstan and Turkmenistan. By this time, China had become a net importer of petroleum products but its interest in the region was only partially driven by energy concerns. More important for Beijing was the security of its 3,300km western border with Kazakhstan, Kyrgyzstan, and Tajikistan. Beginning in the 1990s, security concerns were raised as increasing unrest plagued Xinjiang. This unrest was primarily attributed to Uighur separatists and their struggle, sometimes through violent means, to establish an independent East Turkestan with the assistance of the Uighur diaspora in Kazakhstan. The visit of Li Peng should be seen in this context: it was a first attempt by Beijing to convince the Central Asian states to assist in fighting the separatist movements and prevent them from gaining ground. Indeed, China's "develop the West" program and massive economic development in Xinjiang was largely triggered by this concern as well.³

During Li Peng's visit, China signed an agreement with Kazakhstan on the demarcation of their joint border, while visits to the other states also produced fruitful results. For example, China's state-owned oil company, China National Petroleum Corporation (CNPC) reached an agreement with the Turkmen Petroleum Ministry to build a cross-border gas pipeline to China—a pipeline vigorously promoted by the Turkmen President Saparmurat Niyazov. The project was scheduled to cost around US\$12 billion according to a feasibility study jointly carried out by CNPC, Exxon and Mitsubishi in 1996. Agreements on the provisions of

¹ Sun Zhuangzhi, *New Structure in Central Asia and Regional Security* (in Chinese) (Beijing: Zhongguo shehui kexue chubanshe, 2001), 20-21, 207.

² Xing Guangcheng, "China and Central Asian States: A New Relationship," (in Chinese) *East European, Russian & Central Asian Studies* 1 (1996): 62.

³ Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, *The Strategic Implications of China's Energy Needs* (Adelphi Paper 346) (New York: Oxford University Press, 2002), 54-61.

Chinese government loans were also signed with all the countries concerned.⁴

Arguably, the Central Asian states' initial embrace of China stems from the following three factors. First, due to the land-locked location of Central Asia, there was a need to open new routes to the sea and gain port-access on China's east-coast. Second, Russia's dominance in the region restricted the options available to Central Asian states. Central Asian states thus welcomed the involvement of China or any other actor that presented them with more options. Third, the Taliban regime, which came to power in 1996, triggered a fear of radical Islamism spreading throughout the wider region, and this increased the willingness of Central Asian states to initiate security cooperation with Russia and China.⁵

At that time, the economic ties between China and Central Asian states was marginal. In 1995, for instance, bilateral trade between China and the five Central Asian states totalled only US\$847 million, accounting for a modest 0.03 percent of China's total foreign trade.⁶ Although trade engagements remained at a fairly low level, China started to pay more attention to the energy aspect. When Chinese President Jiang Zemin visited Uzbekistan, Kyrgyzstan and Kazakhstan in 1996, he highly commended the efforts of the three governments for their assistance in China's fight against separatism, and expressed his desire to explore new channels of cooperation with these countries. Soon afterwards, the CNPC asserted its presence in Central Asia by courting Kazakhstan. In 1997, the CNPC won a tender to develop two oil fields in Akhtubinsk and an oilfield in Uzen in competition with Texaco, Amoco and Russia's Yuzhymost. The deal entailed a significant US\$4.3 billion investment spanning over 20 years, and an agreement to build a 2,800km cross-border oil pipeline from Kazakhstan to China was also reached.⁷

Despite these efforts, little progress was seen in the years that followed. One explanation could be that China and the Central Asian states diverted their attention to security cooperation, and that Russia emerged as a factor in the equation. This security cooperation was primarily manifested with the launch of the Shanghai Five mechanism in

⁴ "Bilateral relations between China and Turkmenistan" (in Chinese), March 2005, available at < www.fmprc.gov.cn/chn/wjb/zzjg/dozys/gjlb/1781/default.htm > (November 1 2006); Quan Lan and Keun-Wook Paik, *China Natural Gas Report* (London: Royal Institute of International Affairs, 1998), 112-3.

⁵ "Brief introduction to relations between China and Kazakhstan," May 27 2003 <www.chinadaily.com.cn/en/doc/2003-05/27/content_166588.htm> (October 10 2006).

⁶ *China's Statistics Yearbook* (1995), 545.

⁷ "New China's diplomacy in 50 years – relationship with Eastern European and Central Asian States", <www.amb-chine.fr/chn/zgzfg/zgsg/zzc/zgwj/zgwjb/t153151.htm> (November 10 2006); Philip Andrews-Speed et al, *The Strategic Implications of China's Energy Needs*, p. 59.

April 1996, comprising China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. The Shanghai Five was mainly set up to settle the remaining border disputes troubling interstate relations in the region, particularly between China and its neighbors.⁸ During this time Sino-Russian relations also strengthened considerably which may indicate that China saw its future energy security being guaranteed by Russia rather than the Central Asian states, especially considering the signing of a strategic partnership between the two in 2001. During Chinese President Jiang Zemin's visit to Moscow in July the same year, the newly burgeoning relationship led to the signing of an agreement to build an oil pipeline between Russia's oil fields of Angarsk to China's Daqing oil field.⁹ Given that it was signed by the Chinese State Planning Committee and the CNPC on the one hand, and by Russia's Energy Minister, the CEO of Yukos and the president of Transneft on the other, the deal was viewed as part of an "energy partnership" agreement between the two leaderships.¹⁰ Besides, when the CNPC signed the pipeline deal with Kazakhstan in 1997, the latter was unable to demonstrate an ability to provide the necessary volumes, while the CNPC, in turn, claimed it was unable to finance it.¹¹

Closer Energy Cooperation between China and Central Asia

Although China started to pay more attention to Central Asia after the September 11 attacks on the United States, increased energy engagement only appeared on the agenda after Japan emerged in 2003 as a competitor for an extension of the Siberian oil pipeline. Fearing a likely Chinese monopoly of oil supply from Russia, Japan tried to persuade Moscow in late 2002 to extend the pipeline to the Pacific coast instead. Japanese Prime Minister Junichiro Koizumi reaffirmed these intentions on his first official visit to Russia in January 2003 when the two parties signed a six-point "action plan" calling for cooperation in economics, energy and international diplomacy. The offer Japan provided was a financial package worth US\$7 billion, including a US\$5 billion investment for pipeline construction and US\$2 billion in loans for the development of Siberian oilfields.¹²

⁸ Zhao Huasheng, "Changing Circumstances of Central Asia: Shanghai Cooperation Organization," January 7 2004 <www.fmprc.gov.cn/eng/topics/sco/t57970.htm> (October 29 2006).

⁹ *FSU Oil & Gas Monitor*, July 24 2001, p. 12-13.

¹⁰ *Far East Economic Review*, April 6 2000, p. 32.

¹¹ *FUS Oil & Gas Monitor*, October 15 2003, p. 9; *Kazakhstan Special Report*, November 2003, p. 8.

¹² Refer to Xuanli Liao, "The Petroleum Factor in Sino-Japanese Relations: Beyond Energy Cooperation", *International Relations of Asia-Pacific* 7, 1 (2006).

Other factors that spurred Beijing's entry into Central Asia included a wish to reduce the dependency on the sea lines of communication for oil transports. In the event of conflict or a terrorist attack, these could easily be disrupted, choking Beijing's energy supply, especially at the vulnerable Malacca Straits. The discovery of Kazakhstan's giant Kashagan oil field was another factor that made the Chinese leadership look to Central Asia and the Caspian. The oil field, located in the north of the Caspian Sea, is estimated to be one of the five largest in the world and is claimed to be "the largest oil discovery anywhere in the world in the past 20 years."¹³ Considering Beijing's growing energy needs and continuous economic growth, with oil imports reaching 91 million tons in 2003 of which 75 percent originated in the Middle East and Africa, diversification of energy supplies became urgent.¹⁴ Lacking a "blue water navy" to protect the sea lines of communication, Central Asia and Russia's energy reserves appeared as favourable options. The discovery of Kashagan also made Beijing reconsider its position regarding the feasibility of a Kazakh-China pipeline.

Accordingly, the CNPC and Kazakhstan's state oil company, KazMunaiGaz (KMG), jointly constructed the westernmost section of the cross-border oil pipeline, running 448 km from Atyrau to Kenkiyak in Kazakhstan, a project that was finally completed in March 2003.¹⁵ The eastern-most part of the pipeline, running 988km from Atasu in Kazakhstan to Alashankou at the Chinese border, was completed at the end of 2005 and became operative in May 2006 with a total investment of US\$700 million.¹⁶

The launch of the oil pipeline also marked a turning point for China's energy security in other aspects. With the completion of the pipeline, China secured an energy resource that for the first time was beyond the striking capabilities of U.S. aircraft carrier battle groups, which have the ability to target Chinese supplies in the Middle East and Sudan. In addition, once the middle section between Kenkiyak and Kumkol is complete, China's oil imports from Kazakhstan will increase substantially from the current 1 percent to 15 percent of its total crude oil needs.¹⁷ The pipeline also helped Kazakhstan realize its ambitions to

¹³ David B Ottaway, "Vast Caspian oil field found," *Washington Post*, May 16 2000, A01; *Kazakhstan Special Report*, November 2003, p. 8.

¹⁴ Tian Chunrong, "An Analysis of China's Oil Imports and Exports in 2003" (In Chinese), *International Petroleum Economics* 3 (2004): 11.

¹⁵ "CNPC Spokesman Talking about the Sino-Kazakh Oil Pipeline", April 1 2005, <www.cnpc.com.cn/xwygg/1200503310257.htm> (June 28 2005).

¹⁶ "Oil begins flowing through completed Kazakh-China pipeline"; "US exerts pressure to hinder opening of China-Kazakhstan oil pipeline", *BBC Monitoring - Energy*, May 25 & June 21 2006.

¹⁷ F William Engdahl, "China lays down gauntlet in energy war: the geopolitics of oil, Central Asia and the United States", December 21 2005, , p. 5

become a major oil exporter as well as President Nursultan Nazarbayev's wish to "make China Kazakhstan's closest partner."¹⁸

The Sino-Kazakh Cross-border Oil Pipeline¹⁹



Another victory China scored in Central Asia was the successful takeover of PetroKazakhstan (Petrokaz) in 2005, an international petroleum company registered in Canada but with all of its assets in Kazakhstan. What was particularly interesting for China with this deal was the full ownership of the oil field Kumkol South, and a joint ownership of Kumkol North with Russia's Lukoil.²⁰ Since the Kumkol oil fields were located at the midpoint of the China-Kazakh oil pipeline, obtaining PetroKaz's assets over these oilfields not only enhanced CNPC's oil reserves in Kazakhstan, but also helped improve the efficiency of the pipeline.²¹ China also saw its increasing role in energy cooperation with Kazakhstan in line with the long-term strategic interests of the two countries, especially when faced with greater U.S. military presence in Central Asia after September 11. Consequently, on his visit to Kazakhstan in July 2005, Chinese President Hu Jintao signed an agreement with Kazakh President Nazarbayev to develop a "strategic partnership."²² The strengthened bilateral political relationship had certainly played a significant role in facilitating the CNPC's takeover of PetroKaz in October 2005, despite the competition from India's state-

<www.atimes.com/atimes/China/GL21Ad01.html> (October 5 2006).

¹⁸ "Pipeline opens immediate prospects for China in Central Asia," *Yahoo Business*, November 30 2005.

¹⁹ Source: F. William Engdahl, "China lays down gauntlet in energy war: the geopolitics of oil, Central Asia and the United States," *Asia Times*, December 21 2005.

²⁰ "PetroKazakhstan and LUKoil in crude oil quarrel," *Alexander's Gas & Oil Connections*, January 27 2005.

²¹ *Financial Times*, June 30 2005, p. 26.

²² *BBC Monitor - Energy*, July 14 2005.

owned Oil & Natural Gas Corp, and the opposition from Russia's LukOil.²³

China's energy cooperation with Turkmenistan was also expanded at the turn of the century. Besides increased activity of Chinese companies in the Turkmen oil industry, China also signed a deal with Turkmenistan in April 2006 to build a pipeline capable of supplying 30 billion cubic meters of gas to China over a 30-year period starting in 2009.²⁴ China's energy search in Uzbekistan went smoothly as well. In June 2004, during Hu Jintao's visit to the country, the CNPC signed contracts with Uzbekneftegaz on oil and gas cooperation. In June and September 2006, the CNPC signed two more agreements with Uzbekneftegaz to explore and develop prospective petroleum deposits in five onshore blocks of the Aral Sea, together with Russia's Lukoil, Malaysia's Petronas, and South Korea's National Oil Corporation.²⁵ Kyrgyzstan also received assistance from Chinese companies in petroleum activities, though on a smaller scale.²⁶

The increased activity of China in Central Asia also seems to be welcomed among the Central Asian states themselves. Here, China can be one component in breaking the almost monopoly-like status of Russia's energy ties to the region and increase the options available to them. There should be no doubt however that the increased Chinese presence will be met with some resistance from Gazprom's dominant position in Central Asia.²⁷ Increased competition may however open new windows for cooperation as well. For example, at this year's SCO heads of government summit on September 15 in the Tajik capital of Dushanbe, energy was one the major issues under discussion. The joint communiqué issued at the summit asserted that the members agreed to set energy as one of the top priorities for cooperation, and that an energy working group will be launched to study the possibility of establishing an SCO energy club.²⁸

²³ For more details of the deal, refer to Janet Xuanli Liao, "A Silk Road for oil: Sino-Kazakh energy diplomacy", *The Brown Journal of World Affairs* 12, 2 (Winter/Spring 2006): 45-8.

²⁴ M K Bhadrakumar, "The geopolitics of energy: Russia sets the pace in energy race," September 23 2006, p. 7 <www.japanfocus.org/products/topdf/2230>, (October 9 2006); "Turkmen TV on oil and gas cooperation with China", "Turkmen leader, Chinese official meet to discuss cooperation", *BBC Monitoring - Energy*, April 10 & October 16 2006.

²⁵ "Chinese oil corporation agrees two contracts with Uzbekistan," *BBC Monitoring - Energy*, September 3 2006.

²⁶ "Chinese company to pump oil in southern Kyrgyzstan", *BBC Energy Monitoring*, August 25 2006.

²⁷ M K Bhadrakumar, "The geopolitics of energy: Russia sets the pace in energy race", p. 7; Sherman Garnett, "Challenges of the Sino-Russian strategic partnership", *The Washington Quarterly* (Autumn 2001): 48.

²⁸ "SCO prime ministers' meeting highlights economic, energy cooperation," *People's Daily*, September 16 2006.

Conclusion

China entered Central Asia after the end of the Cold War with the primary intention of ensuring the security of its western border and of diversifying its energy supply. Although cooperation with Central Asia and Russia increased overall from the mid 1990s onwards with the establishment of the Shanghai Five, energy ties did not expand markedly within the first few years. This was due to the relatively minor political significance of energy deals with Central Asia and their infeasibility at the time, and Russia's expressed willingness to increase energy exports to China. In the 21st century, Beijing has resurrected its interest in energy cooperation with the Central Asian countries, partly due to the setback over the Siberian oil pipeline, Japan's emergence as a competitor, Moscow's indecisiveness on the issue, and the fact that Kazakhstan has emerged as a more viable option, not least with the discovery of the Kashagan oil field. Furthermore, September 11 fundamentally altered the strategic context of the Central Asian region and pushed Beijing to more actively assert its influence in the region.

All in all, China's rise as a major power in Central Asia has today become an undeniable fact given its energy interests and political influence. The pace at which China asserts its influence does not show any signs of slowing down, and it seems almost certain that China will remain a great power in the region in the years to come. What China, and perhaps other oil majors in Central Asia as well, may need to think through though, is how to pursue energy security in a more cooperative way that could serve the interest of both sides.

In financial terms, the Chinese oil companies are still not strong enough to compete with the international oil giants, but they do enjoy more political privileges and policy support from the Chinese government. That might be part of the reason for the majors, such as ExxonMobil, Total and Shell, decision to block proposals for Sinopec and CNOOC to purchase BG's share in the Agip KCO consortium in March 2003.²⁹ What they failed to recognize was that trying to block the Chinese out of the Central Asian oil industry will not help anybody. Instead, they should help Chinese companies liberalize by engaging them and exerting their influence accordingly. Likewise, if the Chinese oil companies want to be accommodated more within the international oil industry, they should try to improve their competitiveness by operating more according to international standards.

The alternative option for China is to continue its strategic approach in securing energy supply by embarking on the planned SCO "energy club", which will inadvertently reduce the role of the market in energy

²⁹ For more details, refer to Janet Xuanli Liao, "A Silk Road for oil: Sino-Kazakh energy diplomacy", p. 43-44.

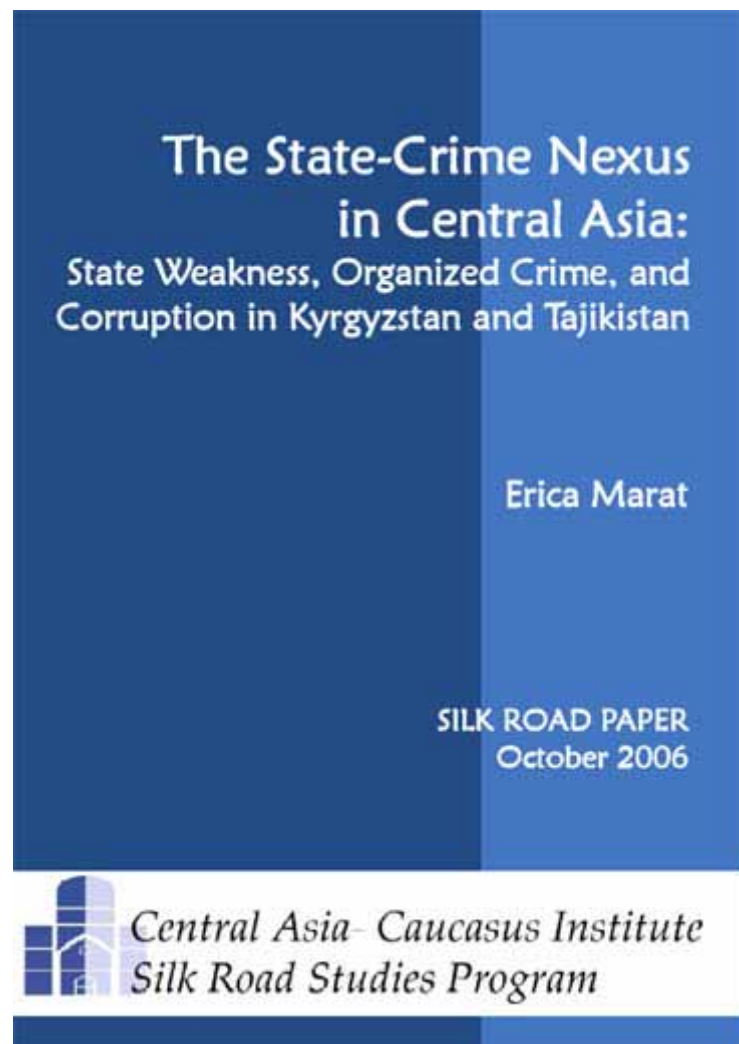
security and raise the political stakes involved. If this becomes the case, the current power struggle between China and other major powers over energy will not be confined to Central Asia solely but may spread elsewhere. In the worst-case scenario, interstate conflicts and “a Cold War on energy” could potentially erupt among the major powers.

Silk Road Paper, October 2006

The State-Crime Nexus in Central Asia: State Weakness, Organized Crime, and Corruption in Kyrgyzstan and Tajikistan

Erica Marat

This paper analyzes the divergent forms that relationships between organized crime and the state have taken in the two worst hit Central Asian states in the past decade. This 138-page paper is available from the offices of the Joint Center cited on the inside cover of this issue, or freely downloadable in PDF format from either www.cacianalyst.org or www.silkroadstudies.org.



Recreating the Silk Road: The Challenge of Overcoming Transaction Costs

*Alan Lee Boyer**

ABSTRACT

Over the last two years U.S. policy makers have been promoting a new vision for Central and South Asia. This vision advocates the creation of a new Silk Road. The idea behind the vision is to restore links between Afghanistan, the Central Asia Republics, and their neighbors. Realization of the vision can only occur if barriers to cooperation and integration are significantly reduced. Conceptually, these barriers can be understood by viewing them as transaction costs: the higher the transaction costs, the harder it will be to create a new Silk Road. High transaction costs are created by geography, dependence on other countries' transit routes and a variety of political, social, and economic factors. The most significant factors contributing to high transaction costs are poor governance, underdeveloped infrastructure, and insecurity. Finding ways to lower transaction costs is the critical task for the United States and its partners.

Keywords • Central Asia • South Asia • Afghanistan • transaction costs • Silk Road • U.S. policy • landlocked • transit infrastructure • Kazakhstan • Kyrgyzstan • Tajikistan • Turkmenistan • Uzbekistan

For the United States and its Western partners to succeed in their nation-building efforts in Afghanistan, they need to find ways to improve economic conditions in the country. According to American policy makers, the best way to accomplish this is to expand economic links between Central and South Asian nations. They believe Afghanistan has the potential to once again become the “land bridge connecting the vast Kazakh steppes and beyond with the great ports of the Indian Ocean and greater Asia.”¹

The essence of the American vision for both regions is the creation of a new Silk Road. Its creation could conceivably open up new markets and economic opportunities for the landlocked countries of Central Asia and Afghanistan. Integrating commerce regionally could spur economic

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¹ Richard A. Boucher, “Remarks at Electricity Beyond Borders: A Central Asia Power Sector Forum,” U.S. Department of State, June 13 2006, <<http://www.state.gov/p/sca/rls/rm/2006/67838.htm>> (July 14 2006).

growth, create new jobs, and bring in foreign investment which could help reduce poverty, increase regional stability, and potentially set the stage for the emergence of democratic governance in the region.

Former Soviet Union (FSU) legacies, geography, a lack of transportation infrastructure, poor governance, and geopolitics are just a few of the barriers that hamper regional cooperation and economic integration. Each of these affects transaction costs which reduce the economic potential of a new Silk Road. Overcoming high transaction costs requires cooperation between regional nation-states, regional and international organizations, international financial institutions, and major powers like the United States, China, India, and Russia. Without this cooperation, the American vision of creating a new Silk Road will not likely be realized. Finding ways to manage transaction costs therefore becomes the critical task for the United States and its partners.

This article will describe the U.S. vision for a new Silk Road, examine the factors contributing to high transaction costs, discuss policy implications, and briefly cover some of the ways the United States is promoting its vision. It will not conduct in depth analysis of regional energy issues or the energy and democracy promotion components of U.S. strategy.

The U.S. Vision and Interests in Central Asia

Prior to 2005, American policy makers generally saw Central and South Asia as distinctly different regions. U.S. relations and solutions to problems were often pursued on a bilateral basis. Geographically Afghanistan was grouped by the U.S. State Department (DOS) with the rest of South Asia. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, the five Central Asian Republics (CARs), were grouped with Russia. The U.S. Department of Defense (DoD) grouped the CARs, Afghanistan, and Pakistan with the Middle East in the Central Command area of responsibility (AOR) and placed India and the rest of South Asia in the Pacific Command AOR. It was not until Secretary of State Condoleezza Rice's visit to Central and South Asia in October 2005, that the United States started viewing Afghanistan, the CARs, India, Pakistan, and the rest of South Asia as part of a greater South Asia. The DOS formally aligned its policy organization with this view in early 2006 with the movement of the CARs from DOS's European and Eurasia Bureau to its South Asia Bureau.²

² The Bureau of South and Central Asian Affairs deals with U.S. foreign policy and U.S. relations with the countries of Afghanistan, Bangladesh, Bhutan, India, Kazakhstan, Kyrgyzstan, Maldives, Nepal, Pakistan, Sri Lanka, Tajikistan, Turkmenistan, and Uzbekistan. DoD's combatant commands AORs boundaries have not changed to conform to DOS's new boundaries and will not likely do so unless it creates another combatant command for South Asia. As of November 2006, the only public discussions about

Since Secretary Rice's visit, U.S. policy makers have been promoting a new vision designed to increase economic prosperity and cooperation between Central and South Asia. Central to this vision is the broad idea of a "revival of the fundamental basis for the Silk Road."³ Such a revival, they believe, will restore historic ties between the regions and create new links in the areas of trade, transport, energy, democracy, and communications.⁴ These linkages are expected to preserve and extend existing relationships (Europe, Turkey, NATO, Organization for Security and Cooperation in Europe (OSCE), and Japan) and expand relationships between Central and South Asia. The stated purpose behind this vision is to advance U.S. national interests and enable the United States to achieve its regional goals: (1) strengthen democratic stability and economic reforms; (2) foster regional security and cooperation on the war on narcotics and terrorism; and (3) promote economic growth and regional cooperation.⁵ These goals directly support U.S. strategic objectives as defined in the 2006 *National Security Strategy of the United States*.⁶

A new Silk Road, it is believed, will provide Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan with more opportunities and options. This should free them from dependence on only one market or one partner and enable each to become more stable, independent, and prosperous. The long term result of this process would be the creation a fully integrated Greater Central and South Asia region which is economically and politically stable and less vulnerable to extremism and other ills.

Factors Contributing to High Transaction Costs

In order to achieve the vision of a new Silk Road, U.S. strategy must be grounded in reality. The current reality in the Central and South Asian regions is there are multiple obstacles to the successful creation of a new Silk Road. The best way to understand these obstacles, given that the vision relies on improving the economic performance and cooperation, is to view obstacles as transaction costs. Transaction costs are those costs other than price which are incurred in economic exchanges, usually

creating a new combatant command have been on whether or not to create an Africa Command.

³ Boucher, "Remarks at Electricity Beyond Borders: A Central Asia Power Sector Forum."

⁴ Richard A. Boucher, "U.S. Policy in Central Asia: Balancing Priorities (Part II)," Department of State, April 26 2006, <http://www.state.gov/p/sca/rls/rm/2006/65292.htm> (September 25 2006).

⁵ Boucher, "Remarks at Electricity Beyond Borders: A Central Asia Power Sector Forum."

⁶ George W. Bush, *National Security Strategy of the United States* (Washington, D.C.: Government Printing Office, 2006), 1.

associated with the process of trading goods and services.⁷ An example of a high transaction cost which creates disincentives to trade would be if it takes 30 days to clear customs, one week to travel 1000 km, and fees payments equal to 20 percent of the cargo's value. In such a scenario, low margin and time-sensitive merchandise no longer become economical.

Disproportionately high transaction costs inhibit the formation of the conditions needed to create a new Silk Road. Several factors generate transaction costs which can be broken down into three broad areas. The first area is composed of factors directly related to the geographic position of Afghanistan and the CARs. The second area involves factors resulting from their dependence on other countries' transit routes for access to regional and overseas markets.⁸ The last area consists of factors based on political, social, and economic conditions not primarily related to being landlocked.

Geographic Position and Topography

Landlocked countries not near major markets typically have low human development rates and have difficulty competing in global markets.⁹ Afghanistan and the CARs are all landlocked, none have direct access to the world's oceans, and all suffer from what Jeffrey Sachs calls a "geographic or physical transport barrier."¹⁰ A physical transport barrier is a result of landlocked countries' reliance on land transport to move products to markets. The cost of a landlocked country's products, relative to its coastal neighbors, increases the further it has to transport its products on land.¹¹ Distances to the nearest seaport vary from 1700 km for Turkmenistan to 3750 km for Kazakhstan.¹² The net effect on

⁷ *The MIT Dictionary of Modern Economics*, 4th ed., ed. David W. Pearce (Cambridge, Massachusetts: MIT Press, 1992), 432.

⁸ Michael L. Faye, John W. McArthur, Jeffrey D. Sachs, and Thomas Snow, "The Challenge of Land Locked Developing Countries," *Journal of Human Development* 5, 1 (March 2004): 40.

⁹ *Ibid.*, p. 32.

¹⁰ Jeffrey Sachs, *Jerome E. Levy Occasional Paper: The Geography of Economic Development*, no. 1, Naval War College, December 2000, p. 9.
<<http://www.nwc.navy.mil/press/LevyPapers/LevyPaper1.pdf>> (October 31 2006).

¹¹ The cheapest way to transport products from one region to another is to use seaborne transport. 80 percent of the world's trade goes by sea. Maritime Transport Committee, *Security in Maritime Transport: Risk Factors and Economic Impact* (Paris: Organization for Economic Co-operation and Development, 2003), 7.

¹² Distances to the nearest port are: 1960 km for Afghanistan, 3600 km for Kyrgyzstan, 3100 km for Tajikistan, and 2950 km for Uzbekistan. Faye et al., "The Challenge of Land Locked Developing Countries", p. 50-51.

Afghanistan and the CARs is higher costs for imports and reduced profits due to higher transportation costs.¹³

A second geographic transaction cost is incurred due to the region's topography. Mountainous terrain in all six states creates conditions which make it difficult to move goods and people between markets. This general ruggedness makes it more difficult to maintain transportation infrastructure, limits the number of transportation routes that can be created, and in the winter causes many routes to close. In Tajikistan, weather closes the Anzob pass from December to May causing all traffic to take alternate routes through Uzbekistan to reach the Sughd region (northern part of the Tajikistan). This increases the cost per ton to transport goods by truck from US\$13 per ton to US\$23 per ton.¹⁴ All states in the region suffer from similar issues which increase transportation costs and transport time.

Dependence on Other Countries' Transit Routes

In landlocked states, the reason for poor economic performance is a result of more than structural factors like distance to the nearest seaport. Transaction costs are also affected due to a dependence on neighboring states' transit routes to access regional and overseas markets. According to several scholars, dependence comes in four areas: dependence on their neighbors' transit infrastructure, dependence on sound cross-border political relations, dependence on peace and stability in neighboring states, and dependence on their neighbors' administrative practices.¹⁵ All four dependency areas create obstacles, many of which are physical and financial, but all to a large extent are driven by policy.

Dependence on Neighbors' Transit Infrastructure

The landlocked nature of Afghanistan and the CARs means they must depend on neighboring countries' transit infrastructure. Therefore, the quality of their neighbors' infrastructure is just as critical as their own. The quality of infrastructure in Afghanistan and the CARs, like other landlocked countries, is generally underdeveloped and not in good condition.¹⁶ According to one estimate, only 25 percent of the roads in

¹³ Freight costs, as a percentage of GDP, in the region vary from 12 percent for Uzbekistan to 20 percent for Tajikistan. William Byrd, Martin Raiser, Anton Dobronogov and Alexander Kitain, *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, World Bank, April 2006, 52.

¹⁴ World Bank, *Tajikistan Trade Diagnostic Study*, report number 32603-TJ, December 13 2005, 19.

¹⁵ Faye et al., "The Challenge of Land Locked Developing Countries", p. 40-42.

¹⁶ Poor infrastructure is estimated to account for up to 60 percent of transport costs for landlocked countries Joseph François and Miriam Manchin, *Institutional Quality*,

Kyrgyzstan and 20 percent of the roads in Tajikistan are in good condition.¹⁷ A lack of funding for repairs, low quality maintenance, and numerous other factors has contributed to poor quality roads. In addition to roads, the region's railways, logistics systems, and multimodal transport infrastructure are also in poor condition and underdeveloped. None of the CARs have modern logistics centers capable of consolidating freight for international markets.¹⁸ This deficiency combined with the limited availability of multimodal transport has created conditions which have made the costs of international transport services for small cargo very high. Cross-border movement of trains is inhibited by a lack of locomotives and train paths which causes substantial delays at border crossings.¹⁹ Rail links from the CARs heading south through Afghanistan are underdeveloped and transit connections to Pakistan do not exist.²⁰ Many infrastructure deficiencies are a direct result of the legacy of the infrastructure development policies of the FSU.

The infrastructures the CARs inherited from the FSU were designed to transport raw materials from the CARs to Russia and Ukraine. This resulted in a transportation network in which all major roads, rail links, and pipelines pointed north, crossing through multiple CARs on the way to Soviet markets. The network's northward orientation ensured that transit corridors to the east, west, and south were either very limited or nonexistent. Since 1991, transport corridors to the east and west have been gradually developing in response to growing trade with China, Iran, and Turkey.²¹ Routes to the south have been much slower to develop; however, since the ousting of the Taliban regime in Afghanistan this has started to change (the CARs' exports to India are less than one percent of their total exports).²² The major investment in the South has been the rebuilding of Afghanistan's Ring Road. The Ring Road is one of the largest and best funded projects in the region. So far, over US\$1.45 billion has been spent on the construction of the Ring Road and roads linking it

Infrastructure and the Propensity to Export, January 2006, <<http://www.uni-kiel.de/ifw/konfer/staffsem/manchin.pdf>> (October 15 2006)

¹⁷ Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit* (Manila: Asian Development Bank, 2006), 54.

¹⁸ *Ibid.*, p. 57.

¹⁹ *Ibid.*, p. 54.

²⁰ Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 53.

²¹ In 2004, imports from Afghanistan and the CARs to China, Iran, Turkey, and Pakistan were US\$2,829, US\$1,433, US\$828, and US\$73 million respectively. See table B.4 in Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, 57.

²² Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 18.

to neighbors' border posts.²³ Numerous other transport projects, intended to integrate the CARs with their neighbors, are ongoing but progress continues to be slow due to deteriorated legacy transit corridors, poor coordination of national transportation projects, and limited financial resources.²⁴

The condition of the transit infrastructure in Afghanistan's southern neighbors, while in better condition and better developed, is also inefficient, suffers from long wait and travel times, and of low reliability. Poor performance in Pakistan's transport sector is estimated to cost Pakistan 4-6 percent of GDP annually.²⁵ Pakistan railways take from 21-28 days to travel 1800 km from the northern end of the country to its southern ports, which is 4-7 times slower than in China and the United States.²⁶ Road freight takes 3-4 days to travel the same distance (twice as long as in Europe and East Asia).²⁷ Iran's transport sector is in better condition but has similar problems. Its problems include underdeveloped seaports, railways and road networks, inefficiencies resulting from state ownership of its railways, and poor quality transportation services. Like Pakistan, most of Iran's land freight is carried by trucks.²⁸ The imbalance between the road and train sectors, in both countries, is not just a function of underdeveloped railways, but also a function of government policy which introduces markets distortions which make rail transport less competitive. Both countries' major seaports suffer from a lack of capacity. Specifically, the Pakistani seaports of Karachi and Port Qasim are inefficient, Gwadar, Pakistan and Chabahar, Iran are undeveloped, and Bandar e-Abbas, Iran needs to be upgraded.²⁹ Overall, the transport networks in South Asia are more developed than those to the North, but they still generate significant transaction costs.

²³ Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 64.

²⁴ There are 52 potential routes linking the CARs to Iran and Pakistan. A rough estimate of the total investment needed is over US\$5 billion. Ibid., 18; Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 50.

²⁵ World Bank, "Pakistan Transport Sector," <<http://tinyurl.com/yeglfy>> (November 10 2006).

²⁶ World Bank, "The Indus Trade Corridor – Unlocking Pakistan's Potential," Presentation by the World Bank Transport Team to the Prime Minister of Pakistan, <<http://tinyurl.com/ydrp9p>> (November 10 2006)

²⁷ Most of Pakistan's truck fleet is old and obsolete. Truck trip speeds are very low (20-25kph). Ibid.

²⁸ Iran Daily, "Give Railways a Chance," *Iran Daily*, December 28 2005, <www.iran-daily.com/1384/2462/html/focus.htm> (November 10 2006).

²⁹ Mohiuddin Alamgir, "Report on the Economic Impact of Central-South Asian Road Corridors," Second Ministerial Conference, Central and South Asia Transport and Trade Forum, March 2005, iv, <http://www.afghanistan-mfa.net/recc/CSATTF_percent20Economic_Impact_of_percent20the_Corridors1.pdf> (November 6 2006).

Dependence on Sound Cross-border Political Relations

The ability to access neighboring countries' transit corridors is more than a matter of having the right infrastructure connections. Access requires good cross-border political relations with neighbors. For landlocked countries like Afghanistan and the CARs, bad relations with a neighbor can limit or deny access which has serious economic and political consequences. The causes of poor political relations in the region include the inability of governments to demarcate national borders, a failure to implement effective water management mechanisms, political vagaries of neighbors, criminal and insurgent activities in border areas, fears of Uzbek hegemony, and a general distrust of neighbors.

One of the driving forces of poor political relations in the CARs is Uzbekistan's policies and actions. Uzbekistan is important because it shares a border with Afghanistan and the other CARs and controls important trade routes critical to Tajikistan and Kyrgyzstan. It also has the largest population and most powerful military in Central Asia. Uzbekistan sees itself as the dominate power in the region and often uses its position and power to pressure its neighbors.

A recent example of this activity involves Uzbekistan's refusal to allow Kyrgyz electricity to pass across its borders on the way to Tajikistan in October 2006. Uzbek authorities claimed the local power grid could not support the extra load. Tajik officials disagreed and believe this action was an effort to force Tajikistan to buy the more costly Uzbek electricity.³⁰ Experts also believe this may be part of a larger effort to inhibit Tajik development which could potentially threaten Uzbekistan's leadership role in the region.³¹

Uzbekistan's poor handling of border issues has also strained political relations and restricted access to transit corridors. The 1999-2000 mining of borders with landmines and unilateral demarcation of disputed borders with Kazakhstan, Tajikistan, and Kyrgyzstan resulted in higher cross-border tensions.³² The fallout from these actions and the resulting

³⁰ "Uzbeks Use Electricity in Power-Struggle with Tajiks," *Institute for War and Peace Reporting* (Central Asia Reporting), October 6 2006, <http://www.iwpr.net/index.php?m=p&o=324386&s=v&apc_state=henbbtj324386> (October 7 2006).

³¹ Alexander Sadikov, "Tajikistan's Ambitious Energy Projects Cause Tension with Uzbekistan," *Eurasianet*, October 4 2006, <<http://www.eurasianet.org/departments/insight/articles/eav100406.shtml>> (October 18 2006).

³² This situation is further complicated by the use of different maps which has led to different interpretations of where border lines actual are. Yuri Yegorov, "Uzbekistan Agrees to Remove Minefields Along Its Border with Kyrgyzstan," *Eurasia Daily Monitor*, June 29, 2004, <http://www.jamestown.org/publications_details.php?volume_id=401&issue_id=3001&article_id=2368167> (October 20 2006).

landmine removal operations continues to cause minor conflicts along Uzbekistan's borders and sour relations with its neighbors.

Demarcation disputes are also prevalent between Tajikistan and Kyrgyzstan, especially in the Ferghana Valley. The Ferghana Valley, home to nine million people, has some of the most contentious border disputes in the region. The combination of porous borders and presence of multiple ethnic enclaves (one Kyrgyz enclave in Uzbekistan, four Tajik enclaves in Kyrgyzstan, and two Uzbek enclaves in Kyrgyzstan) make border control and demarcation very difficult. Border tensions over the years have resulted in numerous incidents and riots at border stations. The most recent incident occurred on September 19, 2006 when Tajik border guards captured an Uzbek soldier and contract worker for illegally crossing into Tajik territory near Kurak.

Water is another significant source of political tension in Central Asia. Most of the region's water originates in Tajikistan and Kyrgyzstan, states not well endowed in energy resources. In the winter, Tajikistan and Kyrgyzstan release water from their dams to create electricity which leaves less water available for the summer uses of downstream neighbors. Downstream users, Kazakhstan and Uzbekistan, which are well endowed in natural gas and oil resources, are the CARs biggest consumers of water. They use water in the summer to grow cotton and other crops. As the economies in upstream users grow, their demand for energy will increase, especially in high energy consumption industries like Tajikistan's aluminum industry (over 40 percent of Tajikistan's exports). Uzbekistan's plan to increase the price of natural gas it sells Kyrgyzstan this winter could result in increased releases of water to generate more electricity to offset gas prices.³³ These factors create a situation which makes water usage a strategic resource and a source of tension between the CARs.

One of the most difficult regimes in Central Asia is the regime of President Saparmurat Niyazov of Turkmenistan. The Niyazov regime has created a Stalinist state that has largely isolated itself from the rest of the world. Turkmenistan severely limits foreign contact with its citizens and access to the country. It generally enjoys good trading relations only with states (Iran and Russia) which enable it to transport its main resources, oil and natural gas, to foreign markets. Relations with other states like Uzbekistan tend to be poor.³⁴ Turkmenistan's isolationist

³³ The current price of Uzbek natural gas sold to Kyrgyzstan is US\$55 per 1,000 cubic meters (tcm). The new price is expected to be as high as US\$100 per tcm. Alisher Khamidov, "Kyrgyz-Uzbek Relations: Harmonious Now, But Trouble Looms," *Eurasianet*, October 6 2006,

<www.eurasianet.org/departments/insight/articles/eav100606.shtml>, (October 21 2006).

³⁴ President Niyazov accused Uzbekistan's ambassador, Abdurashid Kadyrov, of assisting a leader of the alleged November 2002 coup. This accusation severely damaged Turkmen-Uzbek relations and forced Ambassador Kadyrov to return to Uzbekistan.

policies severely limit opportunities for cooperation and its potential as a transit corridor.

Cross-border political friction is not limited to the CARs. South Asian states suffer from the same disease. Pakistan's support for and tolerance of extremists groups has long been a major factor in poor relations with its neighbors. Its backing of the former Taliban government and recent inability to eliminate the al Qaeda and Taliban threat emanating from Waziristan area of Pakistan are major causes of friction between the Afghan and Pakistani governments.³⁵ Pakistan's proposal to fence and place landmines along the Afghan-Pakistan border has increased tensions further. Afghanistan's largest border is with Pakistan, therefore it cannot serve as a transit hub between South and Central Asia unless relations improve between them.

Dependence on Peace and Stability in Neighbor States

States undergoing civil wars, major political unrest, combating insurgencies or suffering from high levels of criminal activity develop conditions which cause states to close or severely restrict access across borders. Over the last decade the Central and South Asian regions have experienced all these problems. The largest source of instability has been Afghanistan. Concerns over the infiltration of terrorist groups and other extremists along with the expansion of the drug trade and its associated criminal activity have caused Afghanistan's neighbors to restrict border access.

Instability in other states has also been a source of border closures and restrictions. Kazakhstan and Uzbekistan closed their borders with Kyrgyzstan in March 2005 during the Kyrgyz Tulip Revolution. Kazakhstan also closed its border with Kyrgyzstan on November 29, 2005 until after the December 4, 2005 presidential elections.³⁶ The Uzbek-Kyrgyz border was closed after the May 2005 unrest in Andijan. This incident was not the first time the Uzbek border was closed. Uzbekistan has a history of closing or restricting access to its borders. The Uzbek government's primary rationale for tighter border controls has largely been based on security concerns related to the activities of radical Islamic groups. Incidents like the March 2004 attacks in Bukhara and Tashkent

³⁵ Poor relations between Afghanistan and Pakistan have historical roots in Afghanistan's refusal to accept the Durand Line as the international border and its claims to parts of Pakistan's Pashtun borderlands. International Crisis Group, "Countering Afghanistan's Insurgency: No Quick Fixes," *Crisis Group Asia Report N°123*, November 2 2006, 24; Marvin G. Weinbaum, "Afghanistan and its Neighbors: An Ever Dangerous Neighborhood," *USIP Special Report*, United States Institute of Peace, June 2006, 10-12.

³⁶ Erica Marat, "Fearing Color Revolutions Are Contagious, Kazakhstan Shuts Border With Kyrgyzstan," *Eurasia Daily Monitor*, December 1 2005, <http://www.jamestown.org/publications_details.php?volume_id=407&issue_id=3544&article_id=2370538>, (October 28, 2006).

have intensified the regime's fears of radical Islamist group infiltration. Uzbekistan also closed its borders over economic issues in January 2003. During this period, Uzbekistan blew up a bridge at the border crossing near the Kyrgyz town of Kara Su and accused its neighbors of "economic aggression."³⁷

Dependence on Neighbors' Administrative Practices.

The CARs and their neighbors have significantly different national transportation regulations and procedures. Border procedures and tariffs are also governed by a complex regional regulatory framework which is based on numerous bilateral, multilateral, and international agreements. This mosaic of agreements creates a situation which has resulted in little harmonization of transport procedures and increased the costs of cross-border and transit traffic among the CARs and their neighbors.³⁸ The way this situation increases transaction costs can best be demonstrated by examining tariffs, customs regimes, and visa procedures.

Customs regimes, while they vary widely from country to country, can generally be characterized as inefficient, uncoordinated, time consuming, and costly. Typically, at each border checkpoint or port of entry, each state has multiple inspection and enforcement agencies. Each agency has its own paperwork requirements and fees. Custom clearance can take anywhere from 3 to 97 days depending on the country. The number of documents and signatures required to import into the region are: 18 and 32 for Uzbekistan, 10 and 57 for Afghanistan, 18 and 27 for Kyrgyzstan, 18 and 17 for Kazakhstan, and 12 and 15 for Pakistan.³⁹ In Tajikistan more than 60 administrative steps are typically required to import a product.⁴⁰ A similar number of administrative requirements and delays exist for exports.

The fees associated with clearing customs can be considerable. For a truck to transit from the Talas Oblast in East Kyrgyzstan to the Termez, Afghanistan border crossing, it would have to make four border crossings (Kyrgyzstan-Uzbekistan, Uzbekistan-Tajikistan, Tajikistan-Uzbekistan, and Uzbekistan-Afghanistan). Crossing these borders could cost anywhere from US\$600 to over US\$1,000 in transit fees depending on which country the truck is from. Insurance, taxes, excess axle fees, and

³⁷ Some observers believed these incidents were a result of Uzbekistan's own inability to deal with economic reforms and the failings of its state-run economy. "Uzbek Border Row Introduces New Element of Tension in Central Asia," *Eurasianet*, January 27 2003, <<http://www.eurasianet.org/departments/business/articles/eav012703.shtml>> (October 28 2006).

³⁸ Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 55.

³⁹ Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 70.

⁴⁰ World Bank, *Tajikistan Trade Diagnostic Study*, p. 26.

escort and overstay fees can increase costs another 25-50 percent.⁴¹ National governments often require trucks to be escorted during transit in order to prevent non-payment of import duties. Private escort fees can be as high as US\$2,000, therefore most trucks end up transiting in convoys escorted by customs services. Usually one convoy forms per day in the CARs except in Tajikistan where it can take as long as 2-3 days.⁴²

Visa procedures are another administrative procedure which increases transaction costs. Foreign drivers in the CARs and neighboring countries are required to obtain entry visas. Visas cannot be purchased at border crossings. Typically, visas have to be procured in advance from the embassy of the CAR the driver will be entering. Single entry visas can cost between US\$4 and US\$70 depending on the driver's country of origin.⁴³ The cost combined with time required to acquire a visa creates another barrier to cross-border and regional trade.

Tariffs also lack harmonization and are a significant barrier to trade in Central and South Asia. The tariff rates and schedules employed by the CARs differ considerably. Turkmenistan (10 to 100 percent on 94 commodities), Kazakhstan (7.9 percent average with some as high as 100 percent), and Uzbekistan have relatively high tariff rates and the latter two countries employ a very complex tariff schedule. Kazakhstan, Tajikistan, and Uzbekistan frequently and unpredictably change their tariff schedules.⁴⁴ Railway tariffs have also been a source of tension between Uzbekistan and Tajikistan.⁴⁵ Implicit tariffs in the form of taxes are also levied by Kazakhstan and Uzbekistan on selected imported goods in order to protect domestically produced goods.

Burdensome customs procedures and paperwork, complicated border crossing procedures, a lack of harmonization in tariff policy, and other administrative practices of the CARs has created an environment that imposes several barriers to cross-border and regional trade and cooperation. All of these barriers are a matter of policy. Unlike physical barriers, like poor geography, which impose transaction costs that are largely fixed, administrative practices are barriers which create transaction costs that can be lowered through better policy.

⁴¹ Ibid., 39; Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 56.

⁴² Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 70-71.

⁴³ Ibid., p. 70.

⁴⁴ Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 85.

⁴⁵ Tajikistan incurs a direct net loss of US\$14 million annually as a result of this dispute. World Bank, *Tajikistan Trade Diagnostic Study*, p. 33.

Unfortunately, creating and carrying out better policy can be very difficult where powerful vested interests benefit from the status quo.⁴⁶

Other Political, Social, and Economic Conditions not Related to Being Landlocked

In addition to being landlocked and the costs arising from dependency, several other conditions produce transaction costs which can potentially inhibit a new Silk Road. These conditions are based on a wide variety of political, economic, and social factors. The most significant factors include border effects, informal barriers, a lack of economic diversity and inadequate markets of scale, the “spaghetti bowl” problem, business and social network effects, and the actions of major powers.⁴⁷ All create barriers that will need to be considered and addressed.

The first factor policy makers should consider is what economists refer to as the “border effect.” The mere presence of a border inhibits integration and impedes trade. Borders create a strong “home-bias” in the pattern of trade.⁴⁸ Different legal systems, regulatory schemes, currencies, languages, and cultural practices all contribute to this effect. Many of the differences have become more pronounced in the CARs since the breakup of the Soviet Union. Each of the CARs has strove to create their own national identities which have resulted in similar, but different forms of governance. The legal systems and governmental institutions of each state have contributed to more jurisdictional and institutional differences within the region. Different jurisdictions and institutions are barriers that generate transaction costs.⁴⁹ Local languages like Turkmen, Kazakh, Northern Uzbek, Tajiki, and Kirghiz are replacing Russian as the language of choice. South Asian states also speak a wide variety of different languages (Urdu and Sindhi in Pakistan; Farsi, Pashto, Southern Uzbek, and Turkmen in Afghanistan; Hindi and English are the dominate languages in India). The numerous currencies in use in the two regions include the Uzbekistani Soum, Indian Rupee, Pakistani Rupee, Afghani, Somoni, Turkmen Manat, and the Tenge. These and other factors present in Central and South Asia create a strong disincentive to integrate.

⁴⁶ Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 20.

⁴⁷ The spaghetti bowl problem is characterized by “chaotic crises cross of preferences, with a plethora of different trade barriers applying to products, depending on which countries they originated from. This trend, according to Jagdish Bhagwati, has seriously damaged the world trading system. Jagdish Bhagwati, “Reshaping the WTO,” 2005, <<http://www.columbia.edu/~jb38/search=percent22Bhagwatipercent20wtopercent20reportpercent202005percent22>> (October 25 2006).

⁴⁸ Douglas A. Irwin, “Trade and Globalization,” in *Globalization: What’s New*, ed. Michael W. Weinstein (New York: Columbia University Press, 2005), 27.

⁴⁹ Dani Rodrik, “Feasible Globalizations,” in *Globalization: What’s New*, ed. Michael W. Weinstein (New York: Columbia University Press, 2005), 202-203.

Informal barriers to trade and cooperation arising from internal factors are the second factor which creates higher costs. They include poor governance, corruption, criminal activity, and poor economic conditions. All these factors feed on each other. Poor governance creates opportunities for corruption and criminal activity and vice versa. Criminal activities contribute to corruption and poor governance. Poor economic conditions frequently result of poor governance and bad economic policy in states like Uzbekistan and Turkmenistan. In states, like Kyrgyzstan, with reasonably good economic policies, corruption and criminal activity undermine governance.⁵⁰ None of the Central or South Asian states rank low on corruption indexes. Out of the 159 states on Transparency International's 2005 *Corruption Perception Index*, only India scored above the bottom 30 percentile (see Table 1).⁵¹ Turkmenistan was the third most corrupt state in the index at 155 (tied with Haiti and Myanmar).

Table 1. Central and South Asia 2005 Corruption Rankings

Country	Rank	Country	Rank	Country	Rank
Turkey	65	Kazakhstan	110	Uzbekistan	137
China	78	Afghanistan	117	Pakistan	144
India	88	Russia	126	Tajikistan	144
Iran	88	Kyrgyzstan	130	Turkmenistan	155
Note: Higher scores equate to high levels of corruption.					

Source: Transparency International

Many informal barriers arise directly from the administrative and policy actions already discussed. Multiple control points along transit routes, bureaucratic red tape, high taxes, import-export restrictions, and cumbersome border crossing procedures create conditions and opportunities for corruption and rent seeking activities.⁵² These activities come in many forms and include bribes and unofficial payments, under-invoicing, and smuggling. In the transportation sector, unofficial payments often exceed official payments. Truck drivers on the Dushanbe-Moscow Road reportedly pay US\$842 in official fees and

⁵⁰ Anders Aslund, "The Kyrgyz Republic: Reinforce Economic Growth through Lower Taxes and Better Governance," *Carnegie Endowment Report*, June 17 2004, <<http://carnegieendowment.org/publications/index.cfm?fa=view&id=1564&prog=zru>> (October 28 2006).

⁵¹ Transparency International, 2005 *Corruption Perception Index*, <http://www.transparency.org/policy_research/surveys_indices/cpi/2005> (October 20 2006).

⁵² Rent seeking activities cover nonproductive activities that are designed to create personal wealth. Political corruption falls under this category. Phil Williams, "Criminalization and Stability in Central Asia and South Caucasus," in eds. Olga Oliker and Thomas Szayna, *Faultlines of Conflict in Central Asia and the South Caucasus: Implications for the U.S. Army* (Santa Monica, CA: Rand, 2003), 90.

US\$1,895 in unofficial fees to cross Tajikistan, Uzbekistan, and Kazakhstan.⁵³ Informal payments at internal checkpoints in Tajikistan may amount to as much as one percent of GDP annually.⁵⁴ Kyrgyz trucks traveling routes toward Western Europe and Turkey report making unofficial payments to police and customs officials as high as 12 percent of the value of the cargo carried.⁵⁵ Labor immigrants traveling by train from Tajikistan to Moscow report making similar unofficial payments to border guards, custom officials, and transport police. These unofficial costs do not include the costs and impacts associated with illegal trade.

These same administrative and policy actions create incentives for local populations to engage in illegal trade which further perpetuate corruption and poor governance. Poorly paid border guards, customs and other government officials often demand bribes from local traders. To make a living, these same traders often have to engage in smuggling and under-invoicing in order to get around trade restrictions and taxes. This creates a shadow economy in which illegal activity is the norm. Money earned in a shadow economy is often concealed and not deposited in banks to avoid discovery by government officials. Currency black marketers in Uzbekistan claim most of their customers are traders engaged in smuggling and police and other officials who receive large sums of money in the form of bribes.⁵⁶ In such an environment corruption and rent seeking thrive which allows patron-client networks to become firmly entrenched and further erode governance. Capital created from the shadow economy allows criminal actors to influence local economic and political activities. In some cases, these actors are able to move into the political domain and become elected officials.⁵⁷ All of this creates a poor business environment which raises transaction costs.

In addition to economic factors related to corruption and shadow markets, a lack of economic diversity and inadequate markets of scale create barriers that are the third factor which contribute to higher transaction costs. All of the CARs and Afghanistan have very small, undiversified markets, and depend on a narrow range of products.⁵⁸

⁵³ World Bank, *Tajikistan Trade Diagnostic Study*, p. 30-40.

⁵⁴ *Ibid.*, p. 19.

⁵⁵ Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 70.

⁵⁶ International Crisis Group, "The Failure of Reform in Uzbekistan: Ways Forward for the International Community," *Asia Report N°76*, March 11 2004, p. 14-15.

⁵⁷ This occurred in Kyrgyzstan in 2005. Erica Marat, "Impact of Drug Trade and Organized Crime on State Functioning in Kyrgyzstan and Tajikistan," *The China and Eurasia Forum Quarterly* 4, 1 (2006): 99-110.

⁵⁸ Alan Lee Boyer, "U.S. Foreign Policy in Central Asia: Risks, Ends, and Means," *Naval War College Review* 59, 1 (Winter 2006): 96; Asian Development Bank, *Central Asia:*

Small market size restricts their ability to diversify their exports and makes it very difficult for them to create economies of scale in transportation and exploit market specialization.⁵⁹ The only way for the CARs and smaller South Asian states to benefit from economics of scale and specialization would be to maintain high export levels and have well functioning internal markets. Neither of these conditions exists.

Social, ethnic, and business network effects are the fourth factor which creates barriers to cooperation and increases transaction costs. National politics and economic activity within Afghanistan and the CARs are driven by a social structure of power brokers generally divided along three lines: kinship systems, regional networks, and magnates who control major resources and industries.⁶⁰ The interaction of the power brokers determines the limits and scope of cooperation within and between countries. Economic and political activity generally conforms to these three groupings. The effects produced as these groups jockey for political and economic power can in some cases turn violent, but usually results in the “in group” controlling key resources and the major instruments of state power.⁶¹

The “spaghetti bowl” problem is the fifth factor which has the potential to create higher transaction costs.⁶² It is a result of Central and South Asian states’ entry into numerous bilateral and multilateral regional trade agreements (RTAs). The most notable multilateral RTAs include the Single Economic Space (SES), Commonwealth of Independent States (CIS), Eurasia Economic Community (EAEC), and Economic Cooperation Organization. The discriminatory nature of many RTAs can create inconsistencies and situations which greater complicate customs policies and tariff schedules. This can in turn divert existing trade, worsen social welfare, and hinder integration into the international trading system. Full implementation of the EAEC has potential to create

Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit, p. 12-14.

⁵⁹ World Bank, *Tajikistan Trade Diagnostic Study*, p. 17; Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 6.

⁶⁰ S. Frederick Starr, “Clans, Authoritarian Rulers, and the Parliaments in Central Asia,” Silk Road Paper, Central Asia-Caucasus Institute & Silk Road Studies Program, June 2006, p. 7-8.

⁶¹ The transfer of power between the northern and southern regional of Tajikistan resulted in a civil war in the 1990s and in the presidency of President Emomali Rakhmonov. Since becoming president, Rakhmonov has consolidated power by promoting people from his region, particularly his home town of Danghara. International Crisis Group, “Tajikistan’s Politics: Confrontation or Consolidation?” *Asia Briefing*, May 19 2004, p. 5.

⁶² Manabu Fujimura, “Cross-Border Transportation Infrastructure, Regional Integration and Development,” *ADB Institute Discussion Paper No. 16*, November 2004, p. 18.

all of these effects and increase external tariffs in Kyrgyzstan and Tajikistan.⁶³

The last transaction cost factor is driven by the influence of major powers. The actions of the United States, China, Russia, Japan, European Union, and India can improve or hinder cooperation and integration between the regions. Great power competition over the region's resources and basing rights creates incentives for states not to cooperate as they vie for aid, preferential trade agreements, special treatment, and play major powers off of each other. Signs of great power competition are present throughout the CARs and South Asia. One example of this is the role the Shanghai Cooperation Organization (SCO) plays in regional geopolitics. Created in 2001, the SCO has largely been an instrument Russia and China use to limit American, European, and each other's influence.⁶⁴ One such incident occurred in July 2005 at the SCO Summit. In the joint statement issued at the end of the summit, it asked the United States to provide a firm timeline for the withdrawal of U.S. forces from bases in Uzbekistan and Kyrgyzstan. Competition among major powers over influence is also being seen in, and along, the North Arabian Sea and access to seaports. India and China have been making major infrastructure investments in roads and port infrastructure in Chabahar, Iran and Gwadar, Pakistan, respectively. Japanese, Indian, Chinese, American, and Russian competition over oil and natural gas is another area that could inhibit cooperation.⁶⁵ Should major powers decide to reinitiate the Great Game in Central Asia; this will likely make the U.S. vision of a new Silk Road less viable.

U.S. Actions Supporting Transaction Cost Reduction

As the preceding analysis demonstrated, many factors affect transaction costs. The means and ways the United States employs should consider the following metric: how does an action reduce transaction costs that inhibit a new Silk Road? The means the United States employs cut

⁶³ Asian Development Bank, *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, p. 37-48.

⁶⁴ SCO is composed of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. Mongolia, Pakistan, India, and Iran are observers of the SCO. Martha Brill Olcott, "The Shanghai Cooperation Organization: Changing the 'Playing Field' in Central Asia," Testimony before the Helsinki Commission, September 26 2006, <<http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=18735&prog=zru>> (October 28 2006).

⁶⁵ 68 percent of Indian oil consumption comes for imports. China is the second largest consumer of oil in the world (overtook Japan in 2003). Chinese oil consumption between 2002 and 2005 grew from 5.2 million barrels per day to 6.9 million barrels per day (33 percent increase). Approximately 45 percent of China's oil is imported. Energy Information Administration, Country Analysis Briefs, U.S. Department of Energy, <<http://www.eia.doe.gov/>> (August 24 2006).

across all elements of national power; diplomatic, information, military, and economic (DIME). The ways each of these means is carried out do not always directly support transaction cost reduction. Many U.S. assistance programs are focused on other national objectives like democracy promotion and improving human rights. These programs while valuable will not be discussed here, because their ability to reduce transaction costs is too indirect. The focus will instead be on the ways means are used to promote the U.S. vision and how they reduce transaction costs.

The U.S. vision of a new Silk Road will not endure unless diplomatic and informational actions can effectively articulate the vision and convince others it is in their interests. The primary ways employed so far include high-level visits by U.S. officials and diplomatic engagement with senior Central and South Asian leaders and the donor community, conferences, and the restructuring of the DOS's regional bureaus.⁶⁶ With the exception of the last way (internal realignment of bureaucracies to align with new perspective on the region), all are aimed at bringing people and organizations together and to create conditions which will foster communication and cooperation.

High level visits started with Secretary Rice's visit to Central Asia in October 2005 where she introduced the main ideas behind the vision. President Bush visited Pakistan, India, and Afghanistan in March 2006 and Vice President Cheney visited Kazakhstan in May 2006. President Bush held meetings in Washington with President Musharraf of Pakistan and President Karzai of Afghanistan on September 29, 2006, and President Narabayev of Kazakhstan on September 29, 2006. A central focus of these meetings was the war on terrorism, but a key component of the meeting on September 29, 2006 was to encourage better cooperation between the Presidents of Afghanistan and Pakistan.

On June 13, 2006, the U.S. Trade and Development Agency (USTDA) and DOS sponsored the Electricity Beyond Borders Central Asia Power Sector Forum in Istanbul, Turkey. The Forum took place as part of the Central Asian Infrastructure Integration Initiative. Their purpose was to generate and build cooperation on power infrastructure. During the event, Under Secretary of State Richard Boucher presented the U.S vision to the forum of more than 100 public and private sector participants from the United States and Central and South Asia.⁶⁷

⁶⁶ Central Asia was merged into the South Asia Bureau in early 2006.

⁶⁷ USTDA awarded an US\$800,000 grant to the Ministry of Energy of Tajikistan. The grant will fund early investment analysis in determining the viability of plans to develop electric power generation and transmission in Central Asia. Specifically, the project will evaluate options for Tajikistan, Kazakhstan, and Kyrgyzstan to export their excess electricity to Afghanistan and Pakistan. U.S. Embassy Dushanbe, Tajikistan, "USTDA Promotes Regional Integration of Central and South Asia at Power Sector Forum," Press

Strong U.S. diplomatic engagement with the donor community was crucial to securing funding and international support for Afghanistan's infrastructure reconstruction. Through November 2005, this effort resulted in the Asian Development Bank (ADB) and other donors contributing around US\$600 million for the reconstruction of Afghanistan's highway system.⁶⁸

The economic ways have focused mostly on supporting security and reconstruction efforts in Afghanistan. Over US\$850 million of the over US\$10 billion in U.S. aid to Afghanistan has been devoted to road construction. US\$36 million was dedicated to building a bridge over the Pyanj River to connect Tajik and Afghan road networks in 2006. USAID funding has been spent on custom reform and border initiatives in Kazakhstan, Kyrgyzstan, and Tajikistan.⁶⁹

The U.S. effort to rebuild the Afghan state is the most significant activity that it has engaged in to reduce transaction costs. A well functioning Afghanistan is required in order to connect Central Asia to South. Afghanistan is clearly not there yet, but considerable progress has been made over the last several years. The amount of trade overall with its neighbors has increased, the Afghan National Army while small is making significant progress, tens of thousands of refugees have returned home, and considerable progress has been made on the reconstruction of the Ring Road. This progress could be derailed due to the resurgence of Taliban activity. The fragility of the Afghan state means the United States and its NATO allies will need to provide security assistance for several more years.

Implications for Policy

Creating a new Silk Road is not a short term project. Existing transaction costs have created numerous barriers to cooperation and integration. The United States and the rest of the international community will need to take a long term view of this project. A reasonable way to approach this is to select a broad policy objective which major players can agree on. One such objective could be to focus on reducing high transportation costs and making transit times shorter and more predictable. By focusing on such a practical economic objective, policy makers may be able to find common ground on an interest most major players can support. Such an objective

Release, June 13, 2006, <http://dushanbe.usembassy.gov/pr_061306.html> (November 1 2006)

⁶⁸ President Bush's 2007 Fiscal Year budget request includes a total outlay of US\$140 million for the ADB.

⁶⁹ In November 2005, US\$1 million was devoted to technical assistance for the Kyrgyzstan State Customs Inspection Directorate. US\$9 million was spent on equipment for the Tajik Border Guard. In October 2005, Secretary Rice announced a US\$400,000 USAID trade facilitation program for the CARs.

could also provide a way to bring the private sector into the process. Private sector involvement could shift some of the financial costs from the public to private sector and provide incentives for nations to voluntarily reduce barriers that add to transaction costs.

If major stakeholders see it in their interest to reduce transportation costs and make transit times shorter and more predictable, they may be more willing to address factors which contribute to transaction costs. Landlocked factors such as distance to the coast reflect transaction costs that are largely fixed; however, many other factors create transaction costs which are not fixed and can be reduced. The most important non-fixed factors that should be focused on are those related to governance, security, and infrastructure. In these three areas, some of the impediments to reducing transaction costs may be a lack of financial resources, but the major issues are largely policy driven. The decisions national governments make on how to control their borders, govern their economies, administer customs procedures, and whether or not to cooperate with their neighbors directly impact transaction costs.

The first policy implication is the internal governance of the CARs and their neighbors need to improve significantly. Corruption, red tape, dysfunctional bureaucracies, weak rule of law, and bad economic governance create conditions that make the cost of doing business very high which discourages investment except in high margin sectors like oil, gold, and natural gas. No amount of economic aid is going to create a good business environment unless each country improves its internal governance. The track record in this area has not been good, therefore until major political change occurs, bad governance will continue to drive up transaction costs.⁷⁰

Second, a trust deficit exists in both regions which make cooperation very difficult.⁷¹ A major thrust of U.S. policy should be to find ways to build confidence and trust between states and other regional actors. Harmonization of customs procedures, tariffs, and border policy will require improved relations; however, U.S. and Western sponsored confidence building measures may not be well received by many of the region's leaders, especially in Uzbekistan and Turkmenistan. Regimes concerned primarily with their own survival tend to see American and Western efforts to promote democracy and human rights as a threat.⁷² The United States may have to rely on third parties like China, India, OSCE, and the ADB to build trust and confidence in the region. In some cases the United States may have to work around or even exclude

⁷⁰ Boyer, "U.S. Foreign Policy in Central Asia: Risks, Ends, and Means", p. 95-98.

⁷¹ Niklas Swanstrom, "The Prospects for Multilateral Conflict Prevention and Regional Cooperation in Central Asia," *Central Asian Survey* 23, 1 (March 2004): 41.

⁷² Eugene Rumer, "The U.S. Interests and Role in Central Asia after K2," *The Washington Quarterly* 19, 3 (Summer 2006): 151.

problem states like Uzbekistan and Turkmenistan. Their lack of cooperation hurts them less than it does their smaller neighbors, Tajikistan and Kyrgyzstan. The United States should consider the option of not supporting or conducting cross border projects between Uzbekistan and its weaker neighbors unless they will significantly improve cooperation and help the weaker states. This policy option should include discouraging other actors from conducting similar operations. Exclusion, especially if they see their neighbors benefiting from cooperation, may convince problem states that it is in their interests to cooperate.

Third, until the security situation in Central and South Asia improves, economic integration will remain problematic. The natural response to instability and insecurity, in both regions, is towards strict border controls and isolationist policies. The security situation in Afghanistan exacerbates this natural tendency. While the worst security environment exists in Afghanistan and Pakistan, the CARs also have significant security and instability problems. The presence of Taliban and other militants in Pakistan's border regions continues to hamper security efforts in Afghanistan. Social unrest in Uzbekistan and the influence of criminal elements in Tajikistan and Kyrgyzstan exacerbate the security situation further. All of these factors create a climate of pervasive insecurity which generates transaction costs.

Fourth, linking the regions together requires significantly improved transportation and communications infrastructure, and logistics services. Without the proper internal and regional infrastructure, it becomes very difficult for landlocked countries to diversify their economies and become competitive for time-sensitive goods and light consumer goods.⁷³ Many existing rail links and roads have deteriorated since the demise of the FSU. The cost of upgrading and expanding the entire system far exceeds the resources of local governments.⁷⁴ Outside funding from the ADB and other multilateral donors is helping to ease the burden on local governments.⁷⁵ Even with this additional funding, the infrastructure needs of the CARs and South Asia will likely exceed resources. The

⁷³ Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 18.

⁷⁴ The Tajikistan government is promoting three major road projects estimated to cost US\$760 million, approximately 40 percent of GDP. The estimated cost of upgrading the rest of Tajikistan's roads from poor to good will required an additional investment of at least 80 percent of its GDP. World Bank, *Tajikistan Trade Diagnostic Study*, p. 21.

⁷⁵ The Central Asia Regional Economic Cooperation (CAREC) forum on October 20, 2006, agreed to a plan to improve infrastructure and inter-state relations. The ADB and other multilateral lenders have pledged US\$2.3 billion for the plan through 2008. US\$1.2 billion will be spent on road construction and improvements with smaller sums paying for better railways and an improved fleet for Tajikistan State Air. Mure Dickie, "Central Asia Agrees on Plan to Improve Links," *Financial Times*, October 23 2006, <<http://www.ft.com/cms/s/df6b7776-6223-11db-af3e-0000779e2340.html>> (November 1 2006)

United States and other donors, in cooperation with regional states, will therefore need to prioritize the projects funded. Priority should be given to improving regional transportation corridors and infrastructure that support integration. Donors may also need to link infrastructure improvement projects to the process of trade and transit facilitation.⁷⁶ Without significant reform administrative practices, transaction costs will remain high and impede integration.

Lastly, effectively addressing the myriad of factors that create transaction costs requires a significant level of attention and focus by policy makers. This may be a tall order for senior policy makers whose primary focus is elsewhere.⁷⁷ A solution to this dilemma may be to let partners or the private sector work out the solutions. Farming the problem out to the private sector is not likely to generate the level of cooperation and synergy needed to overcome many of the transaction costs associated with the security and political factors. Relying on third parties like the ADB or China may be a good burden sharing technique, but even it requires a significant level of diplomatic engagement. Working through third parties can be very problematic, especially if they do not see it in their interests to carry out the vision as the United States sees it. Considerable effort will be required to overcoming high transaction cost factors; therefore, if the United States is serious about creating a new Silk Road, it will need to dedicate significant means to the project.

Prospects for the Future

In the near-to-medium term, the ability of Afghanistan and the CARs to become the great land bridge between Central and South Asia appears unlikely. The disadvantages of being landlocked combined with significant security challenges and poor governance has resulted in a baseline of transaction costs that will be difficult to overcome. Regional cooperation, integration, and investments in cross-border transport infrastructure can reduce transportation costs and improve economic prosperity throughout the regions.⁷⁸ One study estimates a transit corridor from Central to South Asia through Afghanistan would cost less than US\$6 billion. The returns on this investment, at full development in 2010, in combined regional trade would be 160 percent greater and transit trade 111 percent greater than they would have been without the

⁷⁶ Byrd et al., *Economic Cooperation in the Wider Central Asia Region: World Bank Working Paper no. 75*, p. 18-19.

⁷⁷ Boyer, "U.S. Foreign Policy in Central Asia: Risks, Ends, and Means," p. 103.

⁷⁸ Fujimura, "Cross-Border Transportation Infrastructure, Regional Integration and Development," p. 18.

corridor.⁷⁹ Unfortunately, most Central Asian leaders are not predisposed towards cooperation and do not appear to grasp the potential of an integrated transit corridor. Their preoccupation with staying in power and distrust of their neighbors means most are unsuitable partners. The ability of the United States or any other major power to economically integrate Afghanistan and the CARs into a greater Central Asia on their own is limited. Cooperation with other major powers like China and Russia may deliver better results, but such a strategy carries the risk of orienting the CARs more towards China and Russia instead of South Asia.

The actions of regional powers like Russia and China will continue to have a significant influence on events in Central and South Asia over the near-to-medium term. Politically and economically, Russia is still the most influential power in Central Asia although Chinese influence in the region has increased significantly over the past decade.⁸⁰ Both countries have significant economic and security interests in the region. Since 2001, due to geopolitics and security concerns, there has been considerable convergence between Russian and Chinese Central Asian interests. This convergence has resulted in increased security and economic cooperation with the CARs. The rising importance of the SCO and increased Russian engagement with other regional organizations (Collective Security Treaty Organization (CSTO) and Eurasian Economic Commonwealth (EEC))⁸¹ are manifestations of this trend. Other major powers (India and Japan) have also increased their engagements activities with the CARs, especially in the energy sector. Russian and Chinese influence in Afghanistan is considerably less. Chinese influence in South Asia is much greater than Russia's and has been on the rise especially in Pakistan.⁸²

⁷⁹ Realizing these types of gains is contingent upon many factors including security, road improvement, harmonization of customs and border procedures, and successful implementation of numerous bilateral and/or multilateral trade/transit/transport agreements. Alamgir, "Report on the Economic Impact of Central-South Asian Road Corridors," p. iii and 19.

⁸⁰ Russia is the CARs largest and most important trading partner and employs more Central Asian workers than any other country. Remittances from workers working in Russia are a significant source of income for the CARs, especially Tajikistan. Chinese trade with the CARs is three to four times smaller than Russia's.

⁸¹ The EEC is composed of Belarus, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. Its primary focus is on economic integration. The CSTO focuses on regional security issues and is composed of the same countries and Armenia.

⁸² China is a major financier of the Pakistani port in Gwadar. Between 2000 and 2005, bilateral trade between Chinese and Pakistan increased from US\$1 billion to US\$4.26 billion. Atul Kumar, "China-Pakistan Economic Relations," *IPCS Special Report 30*, September 2006, p. 2, <<http://www.ipcs.org/IPCS-Special-Report-30.pdf>> (November 19 2006).

Iran, Pakistan, and India are the more significant regional powers in Afghanistan. Each has significant interests in Afghanistan based on numerous cultural, historical, and economic factors. Iran and Pakistan, which share long borders with Afghanistan, have a history of meddling in Afghanistan's internal affairs.⁸³ India, while it does not share a border with Afghanistan, has strong business and cultural ties with Afghanistan and has been an increasingly active player in Afghanistan's economic and security sectors. Pakistan has not welcomed this development and tends to view Indian actions with considerable suspicion.⁸⁴ As Indian influence in Afghanistan increases, Pakistan's fear of encirclement by India will likely drive it to find ways to counter Indian influence. While, all three countries have an interest in seeing the security situation and economic conditions improve in Afghanistan; geopolitics and other national interests may drive them to pursue their interests in a manner that may preclude cooperation amongst themselves and with other powers such as the United States. The actions and policies regional powers pursue to advance their own national interests may not naturally converge with the U.S. vision of a Greater Central and South Asia. Individually or in partnership, China, Russia, India, Iran, and Pakistan have the potential to act as spoilers and derail any U.S. effort to build a new Silk Road.

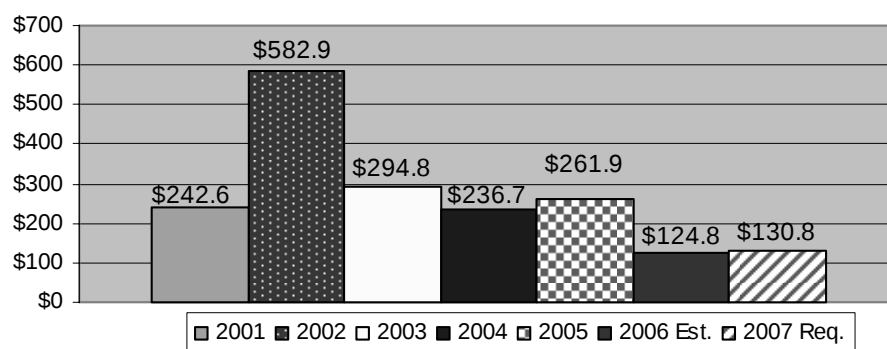
In the near future, the majority of U.S. focus and resources will likely remain on Afghanistan. The current security situation and high political stakes make it difficult to devote more resources towards the CARs. The more likely prospect is fewer resources will be directed toward the CARs. As Chart 1 demonstrates, U.S. assistance has already decreased to less than half of the 2005 level.⁸⁵ It is also quite possible that programs such as Central Asian Infrastructure Integration Initiative may push more of U.S. assistance in the direction of energy infrastructure improvement. Connecting the energy infrastructure of the CARs, especially Tajikistan and Kyrgyzstan's, with South Asia should create positive economic benefits for each country and is consistent with the U.S. vision of creating more options. It will not necessarily do much to reduce many other existing transaction costs.

⁸³ Weinbaum, "Afghanistan and its Neighbors: An Ever Dangerous Neighborhood," p. 6.

⁸⁴ *Ibid.*, p. 16.

⁸⁵ From Table 1 in Jim Nichols, *Central Asia's New States: Political Developments and Implications for U.S. Interests*, Congressional Issue Brief IB93108, (Washington, D.C.: Congressional Research Service), April 1 2003, 16; Table 1 in Nichols, *Central Asia: Regional Developments and Implications for U.S. Interests*, Congressional Issue Brief RL33458, (Washington, D.C.: Congressional Research Service), June 5 2006; Fact Sheets from U.S. State Department Bureau of European and Eurasian Affairs web site. Available at <www.state.gov/p/eur/rls/fs/> (November 15 2006).

Chart 1. U.S. Foreign Assistance to Central Asia by Fiscal Year
(Millions of U.S. dollars)



Source: Congressional Research Service and U.S. Department of State

United States and donor investments in Afghan road infrastructure have laid a solid foundation upon which the economy of Afghanistan should be able to leverage once the security situation improves. ADB investments through CAREC program also have the potential to lower many transaction costs in the CARs if executed properly. The infrastructure improvements achieved through both initiatives, however, may not live up to their economic potential if Afghanistan and the CARs cannot find the political will and capacity needed to lower costs associated with the pervasive insecurity, corruption, poor cross-border political relations, and bad administrative practices.

Conclusion

The fundamental idea behind the new U.S. vision for Central and South Asia is sound. Landlocked countries like Afghanistan and the CARs have the economic and social development deck stacked against them. Their integration into a regional trading network and connection to their southern neighbors has the potential to significantly improve their economic development. For this to happen, major investments need to be made in better governance, security, and transport infrastructure. Investments should be made based on the following criteria: does the investment lower transaction costs? The United States and the donor community have committed significant resources towards improving regional infrastructure which will aid in transaction cost reduction resulting from physical factors. Costs resulting from non-physical factors will be much more difficult to reduce. The policy choices regional leaders make will greatly impact future transaction costs. The current baseline of transaction costs will likely prevent the creation of a new Silk Road over the short-to-medium term. A new Silk Road is a long term project which

cannot be accomplished on the cheap. It will require significant resources, regional cooperation, and focus by policy makers.

The Ecology of Strategic Interests: China's Quest for Energy Security from the Indian Ocean and the South China Sea to the Caspian Sea Basin

*Tarique Niazi**

ABSTRACT

This article attempts to explore the ecological dimensions of strategic interests by examining China's Asia-wide quest for key natural resources and safe seaways for their shipment. It takes a close look at three cases – one in the Indian Ocean region, the South China Sea region, and the Caspian Sea region – to explain interaction between natural resources and China's emerging strategic interests in Asia. The article shows that Beijing's quest for key natural resources underlies its economic and strategic alignments with the respective nations of Indian Ocean, South China Sea and Caspian Sea regions. The article implies that International Relations (IR) Theory and policy makers pay very close attention to the anchorage of strategic interests in the struggles over access and control of critical natural resources.

Keywords • Energy Security • China • South Asia • Caspian • Central Asia • East Asia • International Relations Theory

Introduction

As industrial economies continue to be dependent upon fossil fuels and their safe shipping, security scholarship has come to define key natural resources and critical waterways as strategic interests.¹ With competing claims on dwindling resources and their ever-riskier passages, the security dimensions of the world's resource supplies have become too obvious for strategists to ignore. Yet there is a visible lack of scholarly interest in exploring the ecological dimension of strategic interests, i.e.,

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¹ Michael T Klare, *Resource Wars: The New Landscape of Global Conflict*, (New York: Owl Books, 2002).

tracing national interests to their roots in the struggles over access and control of critical natural resources. Environmental Security Scholars such as Mike Klare,² Conca³ and Homer-Dixon⁴, among others, did attempt to make up for this inattention by demonstrating linkages between natural resource supplies and strategic thinking. Klare and Conca have shown how national concerns for key natural resources are shaping strategic thinking. Homer-Dixon has offered a conceptual framework to understand what he describes as the struggle for resource capture that yields probabilities of intra-and-inter-state conflicts. Rosenberg⁵ has rather more directly addressed the issues of interaction between nature and state, and demonstrated the strategic implications of resource-use policies in the South China Sea.

Freudenburg and Gramling⁶ have employed Environmental Sociological perspectives to explain tensions between the natural economy (oil drilling) and the social economy (impacted communities). They have since continued to pursue this productive line of inquiry, enriching the literature with theoretically grounded empirical work. Niazi⁷ developed a combinatorial framework of interchange between nature, state, and society to explain genocide in Rwanda. He built this framework on the core assumptions of Environmental Sociology and Political Sociology.

The need, however, is to further explore the ecological dimensions of strategic interests, which seem to have set off a competitive quest for natural resources and ever-contested access routes for their shipment. Nowhere are such competitive tensions more evident than in Asia, which is the world's largest continent. At the heart of these contestations are China and its neighbors. China, which is the largest nation on the Asian continent with borders that abut 13 countries, is traversing the globe in

² *Ibid.*

³ Ken Conca, "The Case of Environmental Peacemaking," in Ken Conca and Geoffrey D. Dabelko, eds., *Environmental Peacemaking* (Washington, D.C.: Woodrow Wilson Center Press, 2002), 1-22. Also see Ken Conca, "In the name of Sustainability: Peace Studies and Environmental Discourse," *Peace and Change* 19, 2 (1994): 91-113.

⁴ Thomas Homer-Dixon, "Environmental Scarcities and Violent Conflict: Evidence from Cases," *International Security* 19, 1 (1994): 5-40.

⁵ David Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea," in Carolyn W. Pumphrey, ed., *The Rise of China in Asia: Security Implications for the United States* (Carlisle, Pennsylvania: Strategic Studies Institute, 2002), 229-261.

⁶ William R. Freudenburg and Robert Gramling, *Oil in Troubled Waters: Perceptions, Politics, and the Battle over Offshore Drilling* (Albany: State University of New York Press, 1994).

⁷ Tarique Niazi, "Global Inaction, Ethnic Animosity, or Resource Maldistribution? An Ecological Explanation of Genocide in Rwanda," In Kinloch, Graham C. and R. P. Mohan, eds., *Genocide: Approaches, Case Studies and Responses* (New York: Algora Publishing, 2005), 163-193. Also see Tarique Niazi, "The Ecology of Genocide in Rwanda," *International Journal of Contemporary Sociology* 39, 2 (October 2002): 219-247.

search of energy resources, and is seeking to keep the sea lines of communication (SLOCs) safe for their shipment. It is therefore of great interest for security scholars and strategists alike to gain a deeper understanding of how China's search for key natural resources and its concerns for safe seaways are defining its strategic interests. This analysis attempts to answer this question by examining three cases—one in the Indian Ocean region (South Asia), the South China Sea region (East and Southeast Asia), and the Caspian Sea region (Central Asia)—to explore interaction between natural resources and China's emerging strategic interests. The analysis will show that Beijing's quest for natural resources is forging its economic and strategic alignments with the respective nations of the Indian Ocean, South China Sea and Caspian Sea regions.

In the Indian Ocean region, Beijing is engaged with countries that are endowed with energy resources and in control of key waterways. Among them, Bangladesh, Pakistan and Sri Lanka stand out as China's trusted allies. Beijing's engagement with these nations is born of its enduring interest in gaining access to the Indian Ocean.⁸ Similarly, China is moving closer to those countries in the South China Sea region that contest its claims to the Paracel and Spratly islands in the South China Sea. Most importantly, Brunei, Malaysia, the Philippines, and Vietnam are rival claimants to the Nansha (Spratly) Islands. The waters surrounding these islands boast of immense untapped energy resources, which led China to bill them as the second Middle East.⁹ Also, China has a territorial dispute with Indonesia, which is the region's major military power, over a major natural gas field around Natuna Island.¹⁰

These contested territories tend to cast their shadows on the Strait of Malacca as well, which is predominantly policed by Indonesia and Malaysia, and through which three-fourths of Chinese energy imports are shipped.¹¹ In Central Asia, China has drawn energy-rich nations into an economic and security umbrella group – the Shanghai Cooperation Organization (SCO). Most importantly, it has moved closer to Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. All of these nations are rich in hydrocarbon and hydel power resources – natural gas, oil, and electricity – and make up the “Silk Route” for Chinese energy imports.¹² What follows is an account of China's strategic interests that are

⁸ Sumit Ganguly, “Assessing India's Response to the Rise of China: Fears and Misgivings,” In Carolyn W. Pumphrey, ed., *The Rise of China in Asia: Security Implications*. (Strategic Studies Institute, 2002), 95-110.

⁹ Quansheng Zhao, “Chinese Foreign Policy in the Post-Cold War Era,” In Guoli Liu, ed., *Chinese Foreign Policy in Transition* (New York: Aldine De Gruyter, 2004), 295-322.

¹⁰ *Ibid.*

¹¹ Ian Storey, “China's Malacca Dilemma,” *China Brief* 6, 8 (2006): 4-6.

¹² Tarique Niazi, “Sino-Indian Rivalry for Pan-Asian Leadership,” *China Brief* 6, 4 (2006): 5-8.

developing around its quest for energy resources in the regions of the Indian Ocean, South China Sea and the Caspian Sea.

The Indian Ocean Region (South Asia)

The Indian Ocean provides major sea routes connecting the Middle East, Africa, and East Asia with Europe and the Americas. Four critically important access waterways in the Indian Ocean are the Suez Canal (Egypt), Babel Mandeb (Djibouti-Yemen), Strait of Hurmuz (Iran-Oman) and Strait of Malacca (Indonesia-Malaysia). The Indian Ocean carries a particularly heavy traffic of petroleum and petroleum products from the oilfields of the Persian Gulf and Indonesia. Larger resources of hydrocarbons are being tapped from the offshore areas of South Asia, Iran, India and Western Australia. An estimated 40% of the world's offshore oil production comes from the Indian Ocean,¹³ which no nation dominates yet.

China has long nursed hopes to extend its reach into the Indian Ocean¹⁴ to pursue its diverse interests: First, it wants to secure the sea lines of communication (SLOC) for its very substantial commerce across the Indian Ocean.¹⁵ Second, it seeks to secure farther waterways, such as the Strait of Malacca, through its access to the Indian Ocean in order to have uninterrupted energy supplies. Third, it wants to be able to neutralize any potential hostile action to choke off its energy shipments across the Indian Ocean or the Strait of Malacca.

The realization of these interests hinges on Beijing's access to the Indian Ocean, an access which is gaining growing importance in its strategic thinking.¹⁶ The importance of the Indian Ocean thus continues to shape Beijing's strategic relations in the South Asian region, which is home to the Indian Ocean. China has built alliances with nations that are vital in helping to build greater access to the Indian Ocean. Of these, Bangladesh, Pakistan, Sri Lanka, and Myanmar stand out because of their geographical proximity to the Indian Ocean. Although Myanmar is a member of the Association of Southeast Asian Nations (ASEAN) and is geographically located in Southeast Asia, its aquatic placement is in the Indian Ocean region rather than the South China Sea region. Bangladesh occupies the Bay of Bengal; Pakistan sits on the shores of the Arabian Sea; Sri Lanka is an island nation on the Indian Ocean; and Myanmar's coast meets the Indian Ocean. All these nations can bridge China's

¹³ Donald L. Berlin, "India in the Indian Ocean," *Naval War College Review* (March 22 2006).

¹⁴ Tarique Niazi, "China's March on South Asia," *China Brief* 5, 9 (2005): 3-6.

¹⁵ John W. Garver, "The Gestalt of Sino-Indian Relationship" In Carolyn W. Pumphrey (ed) *The Rise of China in Asia: Security Implications* (Strategic Studies Institute, 2002), 263-285.

¹⁶ *Ibid.*

presence in the Indian Ocean, where India currently is the major player due to its geographical proximity, a proximity that works to the disadvantage of China. Beijing, however, hopes to make up for this disadvantage by deepening its alliance with Bangladesh, Pakistan, and Sri Lanka.

Sino-Myanmar Relations

While China has long worked with all the major South Asian nations, its primary focus has been on Myanmar, which is not only a bridgehead to the Indian Ocean, but also a powerhouse of energy resources, especially natural gas, in its own right. Since the late 1980s, when military leaders seized power in Yangon, China and Myanmar have taken their bilateral relations to the next level of friendship. Yangon grew to rely on Beijing's support after the former was internationally isolated due to its crackdown on democratic movements. In return, Myanmar offered China smooth access to the Indian Ocean, as the former's northeastern Shan Plateau provides an easy route for southwestern China to the Valley of the Irrawaddy River. For over 2 millennia, this route has been the favored corridor for moving goods and people between southwestern China and the Bay of Bengal region.¹⁷ To achieve its broader goal, China needed stability in Myanmar, which bristled with rebellion in its northern and northeastern region. China lent Yangon a much-needed helping hand to pacify its restive region. In addition, a large number of ethnic Chinese migrated into northern Myanmar, integrating the region into the Chinese economy.

In the 1990s, China financed the building of a road network that connected China's Yunnan region with Myanmar. In particular, Beijing contributed to the construction of rail, road, and river networks in Myanmar, which linked China to Myanmar's coast.¹⁸ At the same time, Chinese companies worked to improve Myanmar's harbors, modernize its naval facilities, and construct new naval bases.¹⁹ In addition, they constructed maritime telecommunications and surveillance facilities on Myanmar's littoral and beyond. One such facility was situated just opposite of India's Port Blair on Andaman Island near the Strait of Malacca.

Sino-Pakistan Relations

Some observers such as Garver²⁰ argue that Myanmar provides China much easier access to the Indian Ocean than Pakistan's Karakorum

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ *Ibid.*

²⁰ *Ibid.*

Highway, commonly known as KKH or the “Silk Road.” This argument, however, ignores Pakistan’s paramount maritime importance as the leading steward of the Arabian Sea at the mouth of the Indian Ocean.

As the later events have shown, Pakistan’s strategic significance as a naval power was not lost on China, which, together with Islamabad, began to build a Deep Sea port in 2002 in Gwadar,²¹ an obscure fishing village in Pakistan’s southwestern province of Baluchistan. Gwadar, after which the port is named, sits along the Arabian Sea coast. The Gwadar Port signifies the summit of the Sino-Pakistani strategic partnership. The second phase of the US\$1.6 billion port²² is underway. As many as 500 Chinese engineers, technicians and workers were engaged in the building of this project since its inauguration on March 22, 2002.²³

The port will serve five Chinese ends: First, it will ensure safe shipping for China’s energy imports from the Persian Gulf that supplies 60% of its fuel needs. Second, in the event of any hostile action to block its energy supplies through the Persian Gulf, the Gwadar Port will serve as a safe alternative supply route. Third, it will eventually become the substitute passage for all of Chinese shipments through the Persian Gulf and the Strait of Malacca, where China is totally dependent upon the goodwill of the U.S. and its allies who police it. Fourth, as the Gwadar port sits opposite the Strait of Hurmoz, through which the bulk of the world’s energy resources, importantly Japanese fuel imports, are shipped, it will give China a strategic lever to retaliate in case its shipments are obstructed elsewhere. Fifth, above all, the port provides China a strategic foothold in the Arabian Sea and the Indian Ocean. Its presence on the Indian Ocean will further deepen its strategic influence with major South Asian nations, with which its relations are already thriving.

China’s arrival in Baluchistan is even more meaningful for the latter’s untapped wealth of hydrocarbon, mineral, and metallic resources. Baluchistan sits on estimated reserves of 29 trillion cubic feet of natural gas and 6 billion barrels of oil.²⁴ China is building a vast network of road and rail links, including a US\$200m coastal highway running from Gwadar to Pakistan’s primary naval base in Karachi. The coastal highway will connect Gwadar to western China, including its Muslim-majority autonomous region of Xinjiang, through the Karakorum Highway (KKH).²⁵ Western China has become the hub of the massive development that China has undertaken with a phenomenal investment

²¹ Tarique Niazi, “Gwadar: China’s Naval Outpost on the Indian Ocean,” *China Brief* 5, 4 (2005): 6-8.

²² *Ibid.*

²³ *Ibid.*

²⁴ Tarique Niazi, “The Geostrategic Implications of the Baloch Insurgency,” *Terrorism Monitor* 4, 22 (2006): 8-11.

²⁵ Tarique Niazi, “Thunder in Sino-Pakistan Relations,” *China Brief* 6, 5 (2006): 1-4.

of 730 billion Yuan (roughly US\$88 billion),²⁶ which will be fueled by energy supplies. Baluchistan's oil reserves will be the most precious commodity, however. China wants its energy shipments from Central Asia and the Middle East, especially (liquefied) natural gas from Turkmenistan, Qatar and Kuwait, tankered to Gwadar and then piped or trucked to western China through Karakorum Highway.²⁷ China is also interested in Baluchistan's metallic resources. It is already developing Pakistan's largest reserves of gold and copper in the Saindak area of Baluchistan.

Sino-Bangladesh Relations

Energy and strategic waterways have beckoned Beijing to Bangladesh as well. For China, Bangladesh is a doorway into India's turbulent northeastern region, including the Indian state of Arunachal Pradesh to which China lays territorial claim.²⁸ Above all, China prizes Bangladesh's immense natural gas reserves that are estimated at 60 trillion cubic feet (tcf), which are more than twice the volume of Pakistan's.²⁹ In fact, Bangladesh's natural gas reserves rival even Indonesia's. What makes Bangladesh even more attractive to China is its geographical proximity with Myanmar, which sits on even larger reserves of natural gas. The geographical proximity between Bangladesh and Myanmar makes the latter's gas reserves accessible to China through Bangladesh's flagship port in Chittagong.

Sino-Lankan Relations

In the same way, Beijing cherishes friendly relations with Sri Lanka, which occupies a strategically important heft of the Indian Ocean stretching from the Middle East to Southeast Asia. Colombo's strategic location makes the world's major powers woo it. After 9/11, the U.S. sought access to Sri Lanka's ports, airfields, and air space for its armed forces under the Acquisition and Cross Servicing Agreement (ACSA).³⁰ The ASCA is the first such agreement between Sri Lanka and a western power since its independence in 1948, although in the early 1980s Colombo allowed the U.S. to site a radio transmitter on its soil, which enabled the Voice of America (VOA) to beam its broadcasts into China,

²⁶ Niazi, "Gwadar: China's Naval Outpost on the Indian Ocean".

²⁷ Niazi, "Thunder in Sino-Pakistan Relations".

²⁸ "Arunchal is an integral part of India: Pranab," *UNI*, November 14 2006. The Indian Minister of External Affairs made this statement in response to a televised interview of the Chinese Ambassador to India in which he claimed Arunchal as part of Chinese territory.

²⁹ Niazi, "China's March on South Asia".

³⁰ *Ibid.*

Myanmar and North Korea.³¹ Since the 1980s, the ethnic conflict between Sri Lanka's Sinhalese majority and Tamil minority has worsened, which, in turn, caused it to turn to China. Unlike India or western powers, China boldly vouches for Sri Lanka's territorial integrity. In April, 2005, China and Sri Lanka signed a pact of friendly and strategic cooperation. During Chinese Premier Wen Jiabao's visit to Colombo,³² China also offered generous financial support to help Colombo out of the devastation wrought by the Tsunami. What brings China and Sri Lanka even closer to each other is their commitment to socialism, as Sri Lanka is officially a Socialist Republic. In no small measure, the Lankan Buddhist majority works to the advantage of Beijing in its Buddhist but restive autonomous region of Tibet.

China Joins the SAARC

China's deepening relations with South Asia's major nations have thus yielded handsome pay-offs for China, especially in its diplomatic triumph over India, which is its main contender in the region. On November 13, 2005, China won a long-sought place on the South Asian Association for Regional Cooperation (SAARC),³³ which is a political grouping of seven South Asian nations – Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Despite India's opposition, China's entrée into the SAARC was a testimony to Beijing's sweeping reach into the region. All major nations of the SAARC voted for China, while India stood alone, with the tiny state of Bhutan, to watch as its efforts to block China's passage to the SAARC fail.³⁴

The South China Sea (East and Southeast Asia)

Unlike the Indian Ocean region, the South China Sea region is perceived as China's home turf. Yet China has several challenges even here. Most of these relate to the contested ownership of the South China Sea, especially its islands and their surrounding waters, which boast of immense untapped natural resources, especially natural gas and oil. Thus, the battle is over natural resources as well as the critical shipping seaways in South China Sea region.

Who Owns the South China Sea

China and Taiwan lay territorial claims to the South China Sea and all its islands, reefs and rocks.³⁵ Yet their claims do not go uncontested.

³¹ *Ibid.*

³² Niazi, "Sino-Indian Rivalry for Pan-Asian Leadership".

³³ *Ibid.*

³⁴ Niazi, "China's March on South Asia".

³⁵ Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea".

Many of China's Southeast Asian neighbors are rival claimants to an assortment of islands in the South China Sea, which is bordered by China and Taiwan in the north, Vietnam in the west, Malaysia, Indonesia and Brunei in the south, and the Philippines in the east.³⁶ China's neighbors also assert their claims to the waters that surround the contested islands. The major conflict, however, is over two sets of islands: the Xisha (Paracel) Islands and the Nansha (Spratly) Islands. All of the Xisha (Paracel) Islands are contested among three contenders: China, Taiwan and Vietnam, although only China has physically occupied them since 1974. The Nansha (Spratly) Islands, on the other hand, are claimed by Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam.³⁷ Most of these claimants occupy several of the Nansha (Spratly) Islands, which will subsequently be referred to as the Spratlys. China occupies 8, Taiwan 1, the Philippines 9, Malaysia 9, and Vietnam 27. Brunei lays territorial claims to several of these islands, but occupies none.³⁸

The total area of Spratlys is less than three square miles, but each are important as the basis for staking out claims to the surrounding waters as an Exclusive Economic Zone (EEZ), which, under the United Nations Convention on the Law of the Sea (UNCLOS), extends to 200 nautical miles from the territorial sea. China grounds its claims to the Spratlys through its history by invoking their ownership by successive Chinese dynasties.³⁹ Beijing points to the fact that the international community has continued to accept its sovereignty over these islands since China's independence in 1949. Yet many authorities believe that the Chinese claim of sovereignty over the disputed islands is inconsistent with the UNCLOS, which limits sovereignty claims to 12 nautical miles.⁴⁰ Article 3 of the UNCLOS says that, "every state has the right to establish the breadth of its territorial sea up to a limit not exceeding 12 nautical miles."⁴¹ Articles 55-77 define the concept of an Exclusive Economic Zone (EEZ) as an area up to 200 nautical miles beyond and adjacent to the territorial sea. The EEZ gives coastal states "sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil..."⁴² Observers argue that it

³⁶ Elizabeth Economy, "China's Rise in Southeast Asia: Implications for Japan and the United States," *Japan Focus*, October 6 2005.

³⁷ Zhao, "Chinese Foreign Policy in the Post-Cold War Era".

³⁸ *Ibid.*

³⁹ Sonika Gupta, "Chinese Strategies for Resolution of the Taiwan and South China Sea Disputes," *International Studies* 42, 3-4 (2005): 247-264.

⁴⁰ Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea".

⁴¹ Quoted in *Ibid.*, p. 233.

⁴² *Ibid.*

is also unlikely that any of the South China Sea islands, especially the Spratly islands, meets the criteria to extend the territorial claims to the surrounding waters as an EEZ.⁴³

Natural Wealth of the South China Sea

Nonetheless, it is not just the islands and their surrounding waters that drive the disputants' territorial claims; it is rather sub-surface natural wealth, which lies unexplored in the waters surrounding these islands, that fuels the contested claims. According to the U.S. Energy Information Agency, the South China Sea has proven oil reserves of 7.8 billion barrels.⁴⁴ Current oil production in the region is over 1.9 million barrels per day. According to a 1995 study by Russia's Research Institute of Geology of Foreign Countries, 6 billion barrels of oil might be present in the Spratly islands, in addition to vast reserves of natural gas.⁴⁵ Chinese media describe the South China Sea as the second Persian Gulf. Some Chinese specialists have asserted that the South China Sea could contain as much as 150 billion barrels of oil and natural gas.⁴⁶ In the Spratlys, which are the most contested territory, the exploratory work has yet to be done to quantify proven oil reserves. In 1995, a China Youth report stated that the Spratlys are the key to controlling 10 billion tons of oil, more than one-eighth of China's reserves of about 78 billion tons.⁴⁷ The report claimed that the South China Sea is destined to be another Middle East.

The South China Sea's Shipping Edge

Besides its natural wealth, the South China Sea is equally important to Beijing as the primary seaway for its energy shipments, especially those from the Middle East. In recent years, the South China Sea has become one of the world's busiest international sea lanes. More than half of the world's annual merchant shipping traffic sails through the Straits of Malacca, Lombok, and Sunda.⁴⁸ Crude oil, liquefied natural gas, coal, and iron ore comprise the bulk of shipping traffic. Over 100,000 oil tankers, container ships, and other merchant vessels transit the straits each year.⁴⁹ Oil tankers carry over three million barrels of crude through the straits each day. Over 9.5 million barrels of oil per day flow through the Straits of Malacca alone. More importantly, major East Asian nations such as Japan, South Korea and Taiwan have over 80% of their oil imports

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ Zhao, "Chinese Foreign Policy in the Post-Cold War Era".

⁴⁸ Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea".

⁴⁹ *Ibid.*

shipped through the South China Sea. The estimated volume of future fuel shipments, across the South China Sea, further enhances its strategic significance, and makes the Strait of Malacca a major chokepoint in the world's oil transport system. Given its congestion, insecurity, and China's near-total dependence on it, leads one observer to describe the Strait of Malacca as China's dilemma.⁵⁰

Because of its unequaled strategic significance, the South China Sea and its islands, especially the Spratly islands, are hotly contested between China and the neighboring East-and-Southeast Asian nations. All but Brunei have backed up their respective claims with a military presence on at least one of the Spratlys. Although their claims to EEZs overlap, all six claimants – Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam – invoke the UNCLOS in support of their claims.⁵¹ China, Taiwan and Vietnam tend to claim even part of Indonesia's territory in the Natuna Island area.

Sino-Indonesian Relations

Like China, Indonesia is also a littoral state of the South China Sea. It is the region's second most populous nation, with 200 million people spread over 740,000 square miles, and almost straddles four straits that are critical to international maritime traffic.⁵² Indonesia has long contested the gas-rich offshore fields of Natuna Island. This contestation embittered Sino-Indonesian relations. What irked Indonesia the most was Chinese cartography of the disputed territory that implied Chinese ownership of the natural gas field that sits 180 kilometers northeast of Natuna Island.⁵³ Jakarta contracted the gas field to the Exxon Corporation for exploitation. In early 1994, Indonesia questioned China's redrawn maps that purported to ring the entire South China Sea as its territory.⁵⁴ Initially, China justified its claim to the area as a historic "inheritance from past dynasties."⁵⁵ Indonesia, however, countered that, without continuous occupation of the disputed territory, such claims had no validity in international law. Beijing, nevertheless, insisted that only bilateral negotiations could address conflicting claims, thus implicitly omitting the possibility of international arbitration. Jakarta responded that no bilateral settlement was possible as three or more nations have always been party to the conflict over this area.

⁵⁰ Storey, "China's Malacca Dilemma".

⁵¹ Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea".

⁵² Allen S. Whiting, "ASEAN Eyes China: The Security Dimension," In Guoli Liu (ed) *Chinese Foreign Policy in Transition* (New York: Aldine De Gruyter, 2004): 223-256.

⁵³ *Ibid.*

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*, p. 239.

Although Indonesia achieved incremental gains through quiet diplomacy, a final resolution to the conflict has yet to emerge. Beijing has since made no claim to Natuna Island itself, however. In January 1990, Indonesia sponsored an annual “Workshop on Managing Potential Conflicts in the South China Sea” where China could join other claimants to address non-sovereignty issues informally and privately.⁵⁶ The agenda focused on cooperative studies of various problems, including biodiversity, sea level and tide monitoring, resources assessment, and safety of navigation and shipping. Jakarta hoped that this forum would advance preventive diplomacy through confidence-building measures to bring about a reduction in confrontation over competing claims. China however opposed the multilateral approach to what it believed were bilateral issues.⁵⁷ In September 1996 Indonesia, after a hiatus of five years, held its first major military exercises around Natuna Island. One observer describes these exercises as the largest Jakarta ever conducted in the South China Sea.⁵⁸

Sino-Philippines Relations

China and the Philippines also have a dispute over the ownership of the Spratly Islands. The Philippines’ Malampaya and Camago natural gas and condensate fields are located in the waters of the South China Sea, which are claimed by Beijing. Yet the Philippine government licensed the Shell Philippine Exploration to build a 500-kilometer undersea pipeline to ship gas from the Camago-Malampaya fields to the main island of Luzon.⁵⁹ Despite its territorial claims, China did not raise objections to the development of these fields. In a dramatic turn of events, however, China forcibly occupied Mischief Reef, a circular reef within 200 miles of the Philippine island of Palawan, and within the area claimed by the Philippine government as its EEZ.⁶⁰ China had first covertly established its presence in these waters and in an area claimed by the Philippines within its EEZ. The Mischief Reef, which the Philippines calls the Panganiban Reef, is 150 miles west of Palawan, the Philippines’s nearest land mass, and 620 miles southeast of China.⁶¹ The Philippines immediately protested China’s advance on Mischief Reef. In March, 1995, the Philippine Navy removed Chinese markers on several reefs and atolls and detained Chinese fishing vessels in the area.⁶² In August 1995, the two nations were finally able to reach an agreement to resolve the dispute

⁵⁶ *Ibid.*

⁵⁷ *Ibid.*

⁵⁸ Rosenberg, “Resource Politics and Security Flashpoints in the South China Sea”.

⁵⁹ *Ibid.*

⁶⁰ *Ibid.*

⁶¹ *Ibid.*

⁶² Zhao, “Chinese Foreign Policy in the Post-Cold War Era”.

through diplomatic means and vowed to observe the United Nations Convention on the Law of the Sea (UNCLOS).

Sino-Vietnamese Relations

Of all disputants, China has been most actively engaged with Vietnam to resolve their respective overlapping claims to undeveloped blocks off the Vietnamese coast. A block referred to by the Chinese as Wan Bei-21 (WAB-21) west of the Spratly Islands, is claimed by the Vietnamese in their blocks 133, 134, and 135.⁶³ Sino-Vietnamese inability to resolve these disputes has kept Conoco and Petro Vietnam from undertaking the exploration work in these blocks as planned. In addition, Vietnam's Dai Hung (Big Bear) oil field is on the boundary of waters claimed by the Chinese. In 1974, China invaded and seized the Paracel Islands from Vietnam. In 1987, it set up an observation station in the Spratlys and five years after passed a law declaring sovereignty over the entire China Sea.⁶⁴ In 1988, another confrontation occurred between the Chinese and Vietnamese over the occupation of the Fiery Cross Reef (Yung Shu Jiao). Chinese forces sank three Vietnamese vessels, killing 72 people. These military engagements, however, pushed the two countries to resolve their disputes through talks. On December 25, 2000, Vietnamese leader Tran Duc Luong and Chinese President Jiang Zemin signed two agreements in Beijing to settle a long-standing territorial dispute over resources in the Gulf of Tonkin. The two pacts demarcated territorial waters and exclusive economic zones, and outlined fishery cooperation in the Gulf of Tonkin, known as the Beibu Bay in China.⁶⁵ Beijing has since kept military bases in Hainan and the Paracels. In November 1991, it normalized relations with Hanoi after Vietnam withdrew from Cambodia. By the end of 1994, there were three rounds of talks between Beijing and Hanoi on disputes over their 1,130-kilometer-long land border. There have since been sporadic conflicts involving the Philippines, China and Vietnam over control of these islands. In March 2005, however, the three countries peacefully resolved the conflict by agreeing to jointly search for natural resources, i.e., oil and gas, in the disputed area.⁶⁶

The Caspian Sea Region (Central Asia)

The disputes over natural resources and strategic seaways mark interstate relations in the Caspian Sea region as well, where many Central

⁶³ Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea".

⁶⁴ Economy, "China's Rise in Southeast Asia: Implications for Japan and the United States.

⁶⁵ Rosenberg, "Resource Politics and Security Flashpoints in the South China Sea".

⁶⁶ Economy, "China's Rise in Southeast Asia: Implications for Japan and the United States.

Asian nations are claimants to the natural resources of the Caspian Sea Basin, of which Azerbaijan, Iran, Kazakhstan, and Russia are most important. Although China has no such claim to the Caspian Sea Basin's natural resources, it has emerged as a major potential consumer of these resources, and as such it is making large investments in their development. The region's natural wealth in general has set off a competitive race among its potential consumers who are scrambling for the largest chunk, including monopoly control.

The Natural Wealth of the Caspian Sea Region

Although Central Asia is landlocked, the tremendous untapped hydrocarbon wealth of the Caspian Sea region makes it the world's envy. The region's proven natural gas reserves alone are more than 236 trillion cubic feet.⁶⁷ The region's total oil reserves may well reach more than 60 billion barrels, while some estimates are as high as 200 billion barrels.⁶⁸ In 1995, the region was producing only 870,000 barrels of oil per day, which could be increased to 4.5 million barrels per day by 2010, accounting for 5% of the world's total oil production.⁶⁹ Geographically, Turkmenistan, Uzbekistan, Tajikistan, and Kazakhstan make up the eastern side of the Caspian Sea Basin, beneath which lie oil reserves that rival those of Saudi Arabia and the world's richest reserves of natural gas.⁷⁰ UNOCAL wanted to pipe this oil from existing pipeline infrastructure in Turkmenistan, Uzbekistan, and Russia. The 1,040-mile-long oil pipeline would have extended through Afghanistan to an export terminal that would be constructed on the Pakistan coast.⁷¹ The 42-inch diameter pipeline would have a shipping capacity of one million barrels per day. China is seriously interested in Caspian Sea hydrocarbon resources and has even reported an interest in a pipeline to the Arabian Sea, with a view to importing gas and oil by supertanker.⁷²

China's gateway to Central Asia is its only Muslim-majority autonomous region of Xinjiang. Trade between Xinjiang and the five Central Asian states accounts for 40% of the total trade between China and Central Asia.⁷³ Xinjiang's trade with Kazakhstan alone was valued at

⁶⁷ Congressional Record 1998. U.S. Interests in the Central Asian Republics Hearing Before the Subcommittee on Asia and the Pacific of the Committee on International Relations House of Representatives One Hundred Fifth Congress Second Session, February 12 1998 (Statement of John Maresca, Vice President of International Relations, Unocal Corporation).

⁶⁸ *Ibid.*

⁶⁹ *Ibid.*

⁷⁰ *Ibid.*

⁷¹ Richard Tanter, "Pipeline Politics: Oil, Gas and the U.S. Interests in Afghanistan" <www.zmg.org/tanteroil.htm> (inaccessible).

⁷² *Ibid.*

⁷³ Tarique Niazi, "Asia Between China and India," *Japan Focus*, May 31 2006.

about US\$3.3 billion in 2004, which accounted for 73% of China's national trade with Kazakhstan.⁷⁴ Xinjiang is critical to Beijing's future for its vastness, geographical proximity with Central Asia, and above all its immense natural resources. The Tarim Basin alone has proven reserves of over one billion tons of crude oil and 59 billion cubic meters (BCM) of natural gas. These oilfields are expected to provide 50 million tons of crude a year by 2010.⁷⁵

Border Disputes Between China and Its Neighbors

China has further solidified its relations with Central Asia through massive economic investments in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. A major irritant, however, were border disputes between China and its resource-rich neighbors. China has since moved fast to remove that irritant in order to begin burgeoning relations with its neighbors. Kazakhstan, which is the largest economy of the region with a Gross Domestic Product (GDP) of around US\$43 billion in 2005 was the first to have its territorial claims settled, largely to its satisfaction.⁷⁶ The border settlement was an important part of a hefty oil deal that was signed between Astana and Beijing.⁷⁷

Similarly, China and Tajikistan have reached a negotiated settlement of their territorial conflict, except the still contested Babakhshon region.⁷⁸ China and Kyrgyzstan, with the latter sharing a border with Xinjiang, have also settled their border claims. Having mended its frontiers with its neighbors, China earned a great deal of their goodwill, which helped raise its profile in the region. Some observers, however, believe that Chinese presence in the region appears to be an attempt to dominate Central Asia in order to secure China's energy needs.⁷⁹ Given its immense energy resources and strategic location, Central Asia has come to be known as China's Dingwei (Lebensraum). In the 1990s, China increased its military presence in Xinjiang to 200,000 troops.⁸⁰ Xinjiang is

⁷⁴ *Ibid.*

⁷⁵ Martin Andrew, "Beijing's Growing Security Dilemma in Xinjiang," *China Brief* 5, 13 (2005): 8-10.

⁷⁶ Niklas Swanstrom, "China and Central Asia: a new Great Game or traditional vassal relations?," *Journal of Contemporary China* 14, 45 (2005): 569-584.

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*

⁷⁹ See *Ibid.*, for a detailed review of this debate. Swanstrom grounds contemporary concerns about Chinese military presence in Central Asia in history.

⁸⁰ See *Ibid.* Two hundred thousand Chinese troops in Xinjiang, which Swanstrom argues are meant to calm the restive region, are larger than Coalition forces in Afghanistan and Iraq, and the U.S., Russian and Indian military presence in Central Asia put together. So Xinjiang, which is China's gateway to Central Asia could be its "watchtower" for Central Asia as well. It is pertinent to note here that China maintains no military presence in any of the Central Asian Republics (CARs).

“Beijing’s giant oilfield”, and it must be remembered that China’s domestic oil resources are located in the north and northwest, most importantly in Xinjiang. Many trading centers of historical significance were also located in Xinjiang or west of China’s current borders, such as Jarkand, Samarkand, Urumuqi, and Kokand. Today, oil and gas dominate China’s trade with Central Asia because of these commodities’ easy availability and accessibility. China, as next-door neighbor, is a natural beneficiary of Central Asia’s key energy resources.

Sino-Kazakhstan Relations

In terms of investment, however, China largely concentrates on Kazakhstan, followed by Kyrgyzstan, Tajikistan, and Uzbekistan. Besides being the largest economy of Central Asia, Kazakhstan also has proven oil reserves of 2.7 billion barrels.⁸¹ In 1997, China pledged US\$10 billion in investment for oil exploration and construction of infrastructure.⁸² In December 2005, it bought Kazakhstan’s flagship oil company, PetroKazakhstan, for US\$4.18 billion.⁸³ In addition, it invested US\$700m in building a pipeline that will connect Kazakhstan to China through Kyrgyzstan. The last 240 kilometers of the 3,000-kilometer Kazakhstan-China pipeline will run through Xinjiang, where crude will be refined and sent eastwards. Similarly, China is building a vast network of rail and road links in Kyrgyzstan, which is a transit state, to connect China with Uzbekistan. For this communication network, Beijing pledged in 2005 an investment of US\$900 million in Kyrgyzstan, which is almost half of its US\$2 billion GDP.⁸⁴ In all, China has committed US\$9 billion to building a region-wide network of overland pipelines to ship Kazakh oil.⁸⁵ In addition, China Petroleum Corporation has invested US\$4 billion in Kazakhstan’s oil industry.⁸⁶ Earlier in August 2002, China gave Kyrgyzstan US\$970m in military aid.⁸⁷

Sino-Uzbekistan Relations

Beijing is also helping Uzbekistan to develop its modest oil fields in the Fergana Valley. In May 2006, the Uzbek President Islam Karimov visited China, a visit which yielded Beijing’s first serious pledge of investment in the Uzbek energy sector.⁸⁸ Although Uzbekistan is not so well-

⁸¹ Tarique Niazi, “China, India, and Future of South Asia,” *Japan Focus*, August 21 2005.

⁸² *Ibid.*

⁸³ *Ibid.*

⁸⁴ *Ibid.*

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*

⁸⁷ *Ibid.*

⁸⁸ Alisher Ilkhamov, “Profit, Not Patronage: Chinese Interests in Uzbekistan,” *China Brief* 5, 20 (2005): 6-7.

endowed in oil resources, it sits on vast reserves of uranium, which make it attractive to power-short nations such as India and China, and even power-exporting Russia. With its annual production of 2,900 tons of uranium, Russia has recently seen its uranium reserves decline. It has since brought Uzbekistan into a framework of nuclear partnership. Russian President Vladimir Putin views Uzbekistan as a long-term “stable nuclear fuel energy base”⁸⁹ to power the Eurasian economy. In 2004, Putin asked Russian oil and gas giants Lukoil and Gazprom to sign a US\$2 billion contract with Uzbekistan.⁹⁰

Mindful of Tashkent’s potential for supplying key natural resources, especially natural gas, Beijing also signed a framework agreement with it on investments worth US\$1.5 billion in July 2005.⁹¹ In addition, China and Uzbekistan signed an agreement for a US\$950 million long-term loan, as well as for an additional US\$350 million soft loan. China has since invested nearly US\$600 million in Uzbekistan’s energy sector. Uzbekistan boasts of 1.2% of the world’s natural gas reserves,⁹² which make it the region’s second-largest gas-rich nation. Uzbek gas riches make it attractive to a China that is quickly moving away from oil consumption, which is currently 6.3 million barrels per day and is projected to grow to 10 million barrels per day in the next two decades.⁹³ Although China’s current gas consumption accounts for only 3% of its total energy intake, it is growing at an annual rate of 7.8%.⁹⁴ With the gathering realization that fossil fuels are finite in supply, China is working on diversifying its energy resource base. It has already unveiled plans to invest US\$150 billion on developing renewable and alternative energy resources in the next 15 years.⁹⁵

Sino-Turkmenistan Relations

The region’s ultimate site of gas reserves, nevertheless, is Turkmenistan. In April 2006, Beijing signed a 30-year deal with Ashgabat, under which Turkmenistan will provide China with 30 billion cubic meters (BCM) of gas from 2009 to 2039.⁹⁶ The major challenge, however, is the shipment of

⁸⁹ M.K. Bharakumar, “Why Uzbekistan Matters to India,” *Rediff.com*, April 13 2006, <<http://ia.rediff.com/cms/printJSP?docpath=/news/2006/ap/13ubek.htm>> (May 25 2006).

⁹⁰ Alisher Ilkhamov, “Profit, Not Patronage: Chinese Interests in Uzbekistan”.

⁹¹ *Ibid.*

⁹² Wenran Jiang, “Beijing’s New Thinking on Energy Security,” *China Brief* 6, 8 (2006): 1-3.

⁹³ Wenran Jiang, “China’s Booming Energy Relations with Africa,” *China Brief* 6, 13 (2006): 3-5.

⁹⁴ *Ibid.*

⁹⁵ Stephen Blank, “China’s Emerging Energy Nexus With Central Asia,” *China Brief* 6, 15 (2006): 8-10.

⁹⁶ Stephen Blank, “Turkmenistan Completes China’s Triple Play in Energy,” *China Brief* 6, 10 (2006): 6-8.

gas, which is receiving urgent attention of both countries. During Turkmen President Sapirmurad Niyazov's visit to China on April 2-7, 2006, the two countries agreed to take swift measures to complete the Turkmenistan-China gas pipeline project. The proposed gas pipeline will run through Kazakhstan. Both governments would jointly explore and develop gas deposits and conclude comprehensive purchase agreements.⁹⁷ Recently, it also became clear that China intends to pipe Turkmen gas through Tajikistan in a pipeline scheduled to be completed in 2009-10.⁹⁸ Earlier, China announced its plans to connect a natural gas pipeline from Kazakhstan to China that would run parallel to its Atasu-Alashankou oil pipeline.⁹⁹

The Shanghai Cooperation Organization (SCO) and Central Asia

To integrate Central Asia economically and politically, on June 15, 2001 China launched the Shanghai Cooperation Organization (SCO) with Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan as its founding members. By 2004 China had invested US\$4 billion in Central Asia, excluding Kazakhstan.¹⁰⁰ Under the Shanghai Cooperation Organization (SCO) umbrella, Beijing has set aside a credit of US\$900 million for Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan.¹⁰¹ China also has brought Iran, Pakistan, and India on board the SCO as observers. China has recently sealed a US\$100 billion deal to develop Iran's giant Yadavaran oilfield near the Iran-Iraq border.¹⁰² Besides Iran, Pakistan is another nation that is of key importance to China, especially for its strategic transit advantage, both land and maritime. In fact, Pakistan is China's "Silk Route" to energy-rich and trade-hungry Central Asia, access to which Pakistan denies India despite persistent U.S. intercession on the latter's behalf. In Southeast Asia, Pakistan is also China's bridge to Beijing-wary Indonesia, Malaysia, and energy-rich Brunei, all nations with predominantly Islamic populations. Beijing's major concern, however, is the Strait of Malacca, which is patrolled by Jakarta and Kuala Lumpur and through which three-quarters of Beijing's oil imports pass. Pakistan plays an indispensable role as an Islamic ambassador of good will for Beijing among Muslim-majority nations of Southeast and Central Asia.

⁹⁷ *Ibid.*

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*

¹⁰⁰ Also see Tarique Niazi, "Asia Between China and India," *Japan Focus*, May 31 2006.

¹⁰¹ Tarique Niazi, "Sino-Indian Rivalry for Pan-Asian Leadership," *China Brief* 6, 4 (2006): 5-8.

¹⁰² *Ibid.*

Conclusion

China's engagement with respective nations of the Indian Ocean, South China Sea and Caspian Sea regions sufficiently demonstrate that its quest for energy resources is defining its economic and strategic alignments. In the Indian Ocean region, it is employing economic diplomacy to strengthen its relations with the key nations in the region—Bangladesh, Pakistan and Sri Lanka. It has bound them with strategic and defense pacts.¹⁰³ In the South China Sea region, China is deftly deploying both coercive and cooperative diplomacy to assert its territorial claim to the South China Sea and its islands, reefs and atolls.

Beijing's measured use of force, duly tempered with its willingness to negotiate, worked to its advantage in defusing potentially fraught conflicts with Indonesia, the Philippines and Vietnam. Use of force, however, showed China's willingness to raise the stakes in defense of its territorial claim to the South China Sea. Yet its readiness to back down and seek a negotiated settlement to its disputes with Jakarta and Manila served to confirm its credentials as a responsible power. So much so that in the face of Manila's putative armed provocation in the South China Sea,¹⁰⁴ Beijing chose not to retaliate. Above all it successfully brought major contenders in the South China Sea into a cooperative framework of joint exploration and exploitation of its resources,¹⁰⁵ all the while standing by its sovereignty claim over the entire South China Sea.

In the case of the Caspian Sea region, China moved fast to settle its border disputes with its smaller neighbors such as Kazakhstan, Kyrgyzstan and Tajikistan, which went a long way to secure its energy supplies as all of its Central Asian neighbors are either energy-rich nations or strategically located to serve as transit points for their shipments. Beijing's energy diplomacy infused the region with a massive inflow of capital investment, especially in energy-infrastructure building. To further integrate Central Asian nations with the region's economic and strategic interests, China deftly used the Shanghai Cooperation Organization (SCO), which was founded in 2001, as a major diplomatic instrument to create a "multipolar world."

In all these diplomatic initiatives, energy security, both in terms of energy resources and their safe shipping, is driving China's economic and strategic alignments from the Indian Ocean and the South China Sea to the Caspian Sea Basin. This conclusion has obvious implications for International Relations Theory and policy makers alike to pay even closer attention to the ecological dimensions of strategic interests, i.e.,

¹⁰³ *Ibid.*

¹⁰⁴ Zhao, "Chinese Foreign Policy in the Post-Cold War Era".

¹⁰⁵ Economy, "China's Rise in Southeast Asia: Implications for Japan and the United States."

their anchorage in the struggles over access and control of critical natural resources. The conventional focus on security dimensions of strategic interests tends to entail a competitive framework in military planning to secure such interests. Renewed attention should be paid to ecological dimensions of strategic interests that are likely to entail a cooperative framework within the international system to bring critical natural resources within the reach of all stakeholders and users.

The Energy Security in Central Eurasia: the Geopolitical Implications to China's Energy Strategy

*Guo Xuetao*¹

ABSTRACT

The competition among great powers over energy resources and pathways has gotten increasingly intense in recent years, not least in Central Eurasia (CEA). This article will explore the evolution of energy security that has taken place lately and the accompanying political, economic, and even military factors that improve or impede international energy cooperation in the Caspian and Central Eurasian region. It will also make an assessment of China's geopolitical understandings of energy security in CEA, its implications for China's energy strategy, and the future of Central Eurasian energy geopolitics.

Keywords • energy security • China • geo-politics • Central Eurasia • Caspian Sea

Since the beginning of the 21st century competition among great powers over energy resources and pathways have gotten remarkably intense, promoting rapid growth in energy prices and geopolitical considerations involving energy security. Central Eurasia (CEA), forming the heart of the crescent Eurasian space, has been of particular interest to the great powers due to its vast energy resources and strategic location. Geographically, Central Asia is here defined to include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, whereas the CEA consists of the five Central Asian countries plus the three South-Caucasus countries of Armenia, Azerbaijan and Georgia. The CEA states are located to the east and west of the oil and natural gas-rich Caspian Sea. Kazakhstan and Azerbaijan have the biggest oil-reserves and are the largest export countries, although Turkmenistan's oil and gas exports have been growing rapidly in recent years as well.

Indeed, Central Eurasia is a region where the effects of geopolitics and great-power competition have perhaps been more clearly seen than elsewhere. Ethnic and religious conflicts, domestic political turmoil, energy competition among big oil and natural gas companies, and strategic positioning have been a recurrent feature of great-power

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competition in the region. This, in turn, has made CEA a pivot in the new world order, and especially so when seen in context of its rich energy reserves and the growing world energy demand. As stated in a report by the U.S. National Intelligence Council: “Growing demands for energy—especially by the rising powers—through 2020 will have substantial impacts on geopolitical relations.”²

As such, any study on energy can no longer be limited solely to a discussion of supply and demand in the energy world market, but must also seek to examine international energy security from geopolitical and geoeconomic perspectives. Here, major powers have invested a lot of time, money, and effort together with diplomatic and military muscle to win control over major foreign stockpiles and transits of energy. In this context, major oil and gas-importers like the U.S., Europe, China, and India are paying close attention to the CEA region, particularly Kazakhstan, Turkmenistan, Iran and Azerbaijan, whereas other regional powers like Russia are striving to retain influence over these strategic resources.

This article will explore the evolution of energy security that has taken place in recent years and the accompanying political, economic, and even military factors that improve or impede international energy cooperation in the Caspian and Central Eurasian region. It also strives to make an assessment of China’s geopolitical understandings of energy security in CEA, its implications for China’s energy strategy, and the future of Central Eurasian energy geopolitics.

The Geopolitical Competition Over Energy and Security in Central Eurasia

Energy and its Geopolitical Importance

According to the BP Statistical Review of World Energy (2004), proven oil reserves of the five Caspian littoral states total 216.4 billion barrels, while total gas reserves are estimated at 2819.2 trillion cubic feet. In terms of percentages, the five Caspian littoral states have about 18.8 percent of the world’s total proven oil reserves and 45 percent of the world’s total proven gas reserves.³ Officials and analysts from the U.S. Energy Information Agency stated in 2004 that the world’s unproven oil reserves are expected to double in the next two decades, where states located in

² “Mapping the Future,” Report of the US National Intelligence Council’s 2020 Project, NIC December 2004, p. 59.

³ Quotes from Mehdi Parvizi Amineh and Henk Houweling, “Caspian Energy: Oil and Gas Resources and the Global Market,” in Mehdi Parvizi Amineh and Henk Houweling, ed., *Central Eurasia in Global Politics: Conflict, Security and Development* (Koninklijke Brill NV: Leiden, the Netherlands, 2005), 77-78.

the former Soviet space will account for a projected fourfold increase.⁴ As such, there should be no doubt that total Caspian oil and gas reserves are set to be adjusted upwards in the coming years, where the major share of this increase will flow from Kazakhstan, Turkmenistan and Azerbaijan. Meanwhile, the proportion of the Caspian region's energy exports as a share of total world energy supply has increased. In 2001, the five Caspian littoral states exported a total of about 9.2 trillion barrels of oil and 12.05 trillion cubic feet of natural gas to the international market, but exports are estimated to increase to 31.5 trillion barrels of oil and 41.5 trillion cubic feet of natural gas by 2010.⁵

Geopolitically, the CEA region belongs to what Mackinder designated as the "heartland" and is the center of Zbigniew Brzezinski's "black hole" of power, equating to "the Eurasian Balkans" implying a major risk of ethnic conflicts and great-power regional rivalry.⁶

Yet despite this strategic significance, the U.S.' geopolitical assessment of the CEA region in late 1990s has been left basically unchanged since George W. Bush took office in early 2001, although it has lately undergone major revisions, especially after September 11. As argued by Svante E. Cornell:

"With strategic access crucial to the prosecution of the war [on terror], the republics of Central Asia took center stage in the most important conflict to confront the United States in decades. Although less prominently covered in the media, the states of the South Caucasus were equally vital; situated between Iran and Russia, they were the only practical corridor connecting NATO territory with Central Asia and Afghanistan."⁷

However, the emerging strategic landscape of the region has not only affected the interests of the U.S., but also the national interests of neighboring countries, such as Afghanistan, China, Iran, Pakistan, Turkey and even Ukraine, as well as outsiders like the European Union, India, and Japan. All of these contest for influence in one way or another,

⁴ Guy F. Caruso and Linda E. Doman, "Global Energy Supplier and the U.S. Market," *Economic Perspectives* (May 2004).

⁵ More information about Caspian Sea region oil and gas production and export, see Mehdi Parvizi Amineh and Henk Houweling, "Caspian Energy: Oil and Gas Resources and the Global Market", pp. 87-88.

⁶ Zbigniew Brzezinski, *The Grand Chessboard: American Primary and Its Geostrategic Implications* (Basic Books, 1997) chapter 4 and chapter 5. Brzezinski also regards Afghanistan, Iran and Turkey as part of the Eurasian Balkans in this book.

⁷ Svante E. Cornell, "Eurasia Crisis and Opportunity," *The Journal of International Security Affairs* 11 (Fall 2006): 29.

although some are more successful and have more leverage over the CEA states than others.

Great-Power Rivalry in CEA

This great-power rivalry which has primarily manifested itself in the early 21st century has penetrated CEA affairs politically, economically and militarily to the extent that it has been described in terms of a “New Great Game”. This game was intensified by the precarious situation that the CEA states found themselves in as the Soviet Union disintegrated. All CEA states faced major problems in achieving domestic social stability and economic growth. This, in turn, created a power-vacuum in CEA igniting geopolitical turmoil over the vast energy resources found in the post-Soviet successor states. As Mehdi Parvizi Amineh, an expert on CEA energy security notes:

“With the end of Soviet control over CEA and Caspian region natural and human resources, there emerged a New Great Game amongst the many players interested in access to the region’s oil and gas reserves (...) This mixture of changing world politics suggest that the post-Soviet New Great Game for the influence and control of CEA and the Caspian resources is far more complex than the 19th century competitive colonization of the region by the Anglo-Russian Powers.”⁸

This has sparked interest from Beijing to Washington, New Delhi to Moscow, and Tokyo to Brussels. National leaders and corporate executives have today stepped up their efforts to gain control over major sources of oil and natural gas in Central Eurasia. Events such as the 1973 oil crisis,⁹ a rapidly growing world demand, increasing dependency on the Middle East, and the collapse of the Soviet Union have intensified this race to secure alternative and diversified supplies.

Indeed, following the end of the Cold War, U.S. strategists began to pay more attention to the CEA region, and the Clinton Administration showed particular interest in CEA’s energy and economic potential. The current Bush government has also promoted massive and active

⁸ Mehdi Parvizi Amineh, *Globalization, Geopolitics and Energy Security in Central Eurasia and the Caspian Region* (The Hague: Clingendael International Energy Program, 2003), 209.

⁹ A central reason for “energy security” was that the 1973 oil crisis represented a triple threat: day-to-day life was disrupted; there was an economic threat; and there was a political threat. See John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, Energy and Environment Programme (The Royal Institute of International Affairs and Earthscan Publications Ltd., 2001), 176.

involvement in CEA affairs both to restrict China's geopolitical rise and influence in the region while simultaneously coveting Russia's Central Asia "backyard". This was perhaps primarily seen in United States' support for the color revolutions that swept the region in the past few years, starting with the "Rose revolution" in Georgia in 2003, the "Orange revolution" in Ukraine in late 2004, and the "Tulip revolution" in Kyrgyzstan in early 2005. The domestic turmoil created by these revolutions also alerted the member states of the Shanghai Cooperation Organization (SCO) (China, Russia, Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan) which demonstrated growing concern over this turn of events. Yet, the color revolutions were followed by another incident which perhaps proved to have even more profound influence over the regional geopolitics.

In May 2005, violence struck the Uzbek town of Andijan as insurgents freed a group of businessmen from a prison. The event is surrounded by uncertainty of what actually happened, but it is clear that it involved a major bloodshed that the Uzbek security forces were partly responsible for. The violent suppression of the uprising led to massive condemnation from the U.S. and other Western powers, which ultimately led the Uzbek government to demand a forced U.S. withdrawal from the Karshi-Khanabad airbase which it used for its Afghanistan operation. Soon after, a SCO statement was also delivered demanding the U.S. to set a deadline for withdrawal of its bases from Central Asia as the situation in Afghanistan was assumed to have stabilized.

This event, combined with this year's stalemate in the Iranian nuclear crisis, also illustrated a dilemma for American foreign policy vis-à-vis Central Eurasia. As one expert noted,

"...in the space of 12 months, Russia and China have managed to move the pieces on the geopolitical chess board of Eurasia away from what had been an overwhelming U.S. strategic advantage, to the opposite, where the U.S. is increasingly isolated. It's potentially the greatest strategic defeat for the U.S. power projection of the post-World War II period."¹⁰

Indeed, the geopolitical setbacks have prompted a policy review in Washington. In October 2005, Secretary of State Condoleezza Rice visited the Central Asian capitals to assess the new direction of U.S. diplomacy. After returning, Rice ordered a revamping of the Central Asia desk in the State Department by merging it with the South Asia Bureau while simultaneously promoting the "Greater Central Asia" concept to

¹⁰ F William Engdahl, "The US's geopolitical nightmare," *Asia Times Online* (May 9 2006).

avoid U.S.' marginalization in the CEA region. Considering the unprecedented level of influence the U.S. had built up in South Asia, it was calculated that the South Asian countries would serve its interests positively if only they could be persuaded to play a proactive role in Central Asia. Similarly, it was assumed that the Central Asian states may also rethink their deepening involvement in the SCO if other options are provided.¹¹

This will however be met with resistance, not least with regards to energy. Currently, the SCO members are pushing energy cooperation forward among themselves which will surely affect the U.S.' geopolitical role in Central Asia. A notable feature of the 2005 SCO Astana summit statement was that emphasis was also placed on resisting interference of outside forces by putting forward new geopolitical principles for CEA affairs. Moreover, at the 2006 SCO summit in Shanghai, all member states agreed to give priority to cooperation in the fields of energy and to "play an independent role in safeguarding stability and security in this region". Based on the SCO's rapid institutionalization, great-power competition is set to increase in the CEA in the years to come.

For centuries, Russia's control of the CEA region has had long-term and profound geopolitical implications for other great powers. Even though Moscow used natural gas as leverage to exert pressure on Ukraine in the winter of 2005 and has put increasing emphasis on energy diplomacy, its foreign policy towards these countries is not driven primarily by hopes of recapturing great oil wealth, but by geopolitical dominance. As some experts have noted:

"Russian interests in the region are both broader and simpler. At the minimum, Russia has an interest in preventing these newly independent countries from falling under the dominance of any other regional power, for example, Turkey and Iran, or becoming a new frontier for the so-called hegemony of the United States. At the maximum, Russia would seek dominant influence over these countries' domestic as well as foreign policies.Energy is a means, not an end. Russia also has many cards to play short of military action."¹²

Russian President Vladimir Putin has carried out diplomatic, economic and military measures to counterbalance the U.S.' growing

¹¹ For more elaboration of US' strategic thinking of South Asia in "Greater Central Asia", please see M K Bhadrakumar, "'The Great Game' comes to South Asia," *Asia Times Online* (May 24 2006).

¹² John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, pp. 185-186.

geopolitical role in CEA, where one means to do this has been through the continuous strengthening of cooperation within the SCO.

With regards to China, it has gradually given CEA increased geostrategic significance since the end of the Cold War. As the U.S. established a military presence in Central Asia and the United States' carried out preventive military activities against China in East and South Asia by strengthening the U.S.-Japan alliance, deploying more strategic submarines and other deterrent weapons, and ingratiating with the Indians to counterbalance China's rising power, China's leadership has faced tougher geopolitical competition over Central Asia. Considering that China shares 3000 kilometers of borders with the three Central Asian countries of Kazakhstan, Kyrgyzstan and Tajikistan, its importance for China's stability should not be underestimated. Besides, China's thirst for oil and natural gas to support its booming economic growth requires Beijing to develop close and stable relations with these countries, especially in terms of energy cooperation.

The U.S. is not the only energy rival of China in CEA. China is increasingly competing with India, since both countries are struggling to ensure future supplies by either buying into new foreign oil and gas fields or by signing supply contracts. In early 2005, Indian Prime Minister Manmohan Singh said that his country could "no longer be complacent" in its competition with China to secure international energy supplies. When China National Petroleum Corporation (CNPC) recently acquired PetroKazakhstan in 2005, out bidding India's state-owned oil company, the Oil and Natural Gas Corporation (ONGC), this further underscored the rivalry involved between the world's two largest developing countries.

Fortunately, both Beijing and New Delhi know they have similar energy strategies, acknowledging that traditional approaches to attain energy security may not be a solution to a forthcoming energy shock or shortage of supply. In April 2005, both parties reached an agreement on strengthening energy cooperation when Chinese Prime Minister Wen Jiabao visited India. Apart from the alliance established between China Gas Holdings and GAIL (Gas Authority of India Limited), India's largest energy conglomerate, the two countries have launched cooperation over the Greater Nile Oil Project in Sudan on oil refining and transportation, in which CNPC holds a 40 percent stake and India a 25 percent stake.

As reported by Chinese Xinhua News Agency, China Petrochemical Corp (Sinopec) and ONGC also hold a 51 percent and 29 percent stake respectively in the development of the Yadavaran oil field in Iran.¹³ The

¹³ "Sinopec, Iran to sign deal to develop huge oil field", *Xinhua*, September 15 2006, <http://news.xinhuanet.com/english/2006-09/15/content_5095505.htm> (October 15 2006).

CNPC is also negotiating with ONGC over joint investment in specific third-country oil projects. Since India supported the International Atomic Energy Agency's (IAEA) position over Iran's nuclear program in 2005, Iranian criticism has made the proposed Iran-Pakistan-India gas pipeline uncertain. But this will also encourage India to deepen bilateral energy cooperation with China. Moreover, in 2006, before the Chinese lunar new-year, India's oil minister Mani Shankar Aiyer signed an agreement to cooperate with China in securing crude oil resources overseas, the aim of which is to prevent fierce competition over oil to drive up prices. In the second round of the Sino-Indian "strategic dialogue" held in Beijing in February 2006, both countries also agreed to cooperate rather than compete for global energy resources.

Iran has been striving for a dominant role in CEA through control of offshore oil and gas fields in the Caspian Sea, but disputes with Azerbaijan, an ally of the U.S., over the offshore fields have somewhat impeded full realization of Iran's strategy. Meanwhile, the dispute with the EU and the U.S. over its nuclear program entered a stalemate in 2006. Since the EU, Russia, China, Japan and India have major oil interests in Iran, the Iranian nuclear crisis will present a vital foreign policy challenge to Mahmud Ahmadinejad's government.

As the global struggle for energy has intensified, Japan has also been alerted to the potentials in Central Asia, especially since it lacks resources itself and is heavily dependent on the Middle East. Currently, 87 percent of Japan's oil imports come from the Middle East, marking an urgent need for diversification of energy supplies. Central Asia presents a viable necessary, practical and effective choice for Japan to ensure a stable and sufficient flow of oil and gas supplies.

At the same time, by engaging economically and politically with this geopolitically important region, Japan could reinforce its strategic objectives of balancing China's influence in the Asia Pacific. Under these circumstances, Tokyo held the first round of the "Central Asia Plus Japan" foreign ministers dialogue in Kazakhstan in August 2004 including Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan (all SCO members) marking a big step forward in its engagements with Central Asia. On June 5, 2006, the second round of the dialogue was held in Tokyo, and the Japanese government announced that it would assist the Central Asian countries in building the so-called "southern route" inland traffic network for future transportation of natural resources, "including the construction of a road in west Kazakhstan, the road rehabilitation between Bishkek and Osh in Kyrgyzstan, and the rehabilitation and modernization of airports in Kazakhstan, Kyrgyzstan, and Uzbekistan." The ongoing projects invested by Japan also include the construction of a railroad in southern Uzbekistan. As Japanese foreign minister Taro Aso said in his speech four days earlier concerning the dialogue, Japan hoped

this “southern route” would “link Central Asia with the sea by means of a road stretching across Afghanistan.”¹⁴ In late August 2006, Japanese PM Junichiro Koizumi visited Kazakhstan and Uzbekistan, and proposed the construction of pipelines from these two countries to the Indian Ocean through Afghanistan. In the foreseeable future, Japan will likely accelerate its engagement with all the Central Asian countries while simultaneously keeping its eyes open to China's pursued strategy.

The Geopolitical Implications of Energy Competition in CEA

The increasing competition among the great powers over energy resources and their pathways will prove to have major implications for foreign policy formulation, and especially so in Eurasia. The close relationship between economic growth and energy supply makes developed countries worry about losing influence when challenged by rising developing countries, such as China and India. As stated in a report by the U.S. National Intelligence Council: “China and India's perceived need to secure access to energy supplies will propel these countries to become more global rather than just regional powers, while Europe and Russia's co-dependency is likely to be strengthened.”¹⁵ A growing energy demand will promote geopolitical and energy competition among great powers that, in turn, will reinforce their perceived energy insecurity. This is however not to say that cooperation is impossible. In the words of one analyst:

“[T]he rivalry between the United States, Russia, China, Turkey, Iran, and other regional powers since the early 1990s has focused on two dimensions-strategic considerations and hydrocarbon interests. To a great extent the former has been pursued in zero-sum terms with little room for compromise. By contrast, there has been some cooperation in the competition over energy resources.”¹⁶

CEA is no exception. Thus, the pace of economic globalization to some extent relaxes geopolitical competition and may prevent great-power conflicts in the foreseeable future as well. Here, geo-economics emphasize the growing role of economic integration and interdependence

¹⁴ “Central Asia plus Japan” Dialogue Action Plan, released on June 5, 2006 by the Ministry of Foreign Affairs of Japan and the Speech “Central Asia as a Corridor of Peace and Stability” by Taro Aso on June 1 at the Japan National Press Club, <<http://www.mofa.go.jp/region/europe/index.html>> (November 15 2006).

¹⁵ “Mapping the Future”, Report of the US National Intelligence Council's 2020 Project, p. 48.

¹⁶ Gawdat Bahgat, “Central Asia and Energy Security,” *Asian Affairs* 37, 1 (March 2006): 15.

where national interests cannot be pursued solely by military means, but by economic expansion into foreign markets. Fortunately, great-power energy competition is still limited to the “economic” level and penetration through investment and trade will continue to be the main choice for CEA countries and great powers in the “great game”. Of course, if geopolitics and energy rivalry endanger the fundamental national interests of any great power, military involvement or conflicts may take place.

Oil Pipeline or “Power” Pipeline

Due to the lack of pipeline access and options besides the Russian one, it is very important for the land-locked countries of CEA to find new transportation networks for their oil and natural gas exports. The existing pipelines that run through Azerbaijan, Kazakhstan and Russia are poorly designed, shabbily constructed, made of low-quality materials, and cannot meet the demand for Central Asian oil and natural gas exports. The Caspian republics “seek multiple pipeline options to distance themselves from Russia and to gain access to different markets and consumers in Europe, the U.S. and Asia.”¹⁷ Indeed, there is fierce competition over pipelines, ownership, and their further stretches in CEA, and there have been numerous proposals by concerned countries to build east-or-west directed pipelines in their pipeline diplomacies.¹⁸ In the words of one analyst: “In a sense, to control oil and gas pipeline is more important than to possess oil and gas resources.”¹⁹ Whoever controls the lifeline of oil transportation controls the oil resources of Central Asia, and by extension will dominate the politics of the CEA states as well. The BTC pipeline is a primary example of this. As one expert put it, “The BTC’s [Baku-Tbilisi-Ceyhan pipeline] opening is a defining moment. At a minimum, the struggle is over control of the Caucasus and Central Asia. On the very outside, it can mean the breakup of Russia and China.”²⁰ In the end, this competition has resulted in more focus on

¹⁷ Mehdi Parvizi Amineh, *Globalization, Geopolitics and Energy Security in Central Eurasia and the Caspian Region*, chapter 10, p. 195.

¹⁸ Prof. Gawdat Bahgat draws three conclusions from the consideration of pipeline diplomacy in the Caspian Region. First, multiple export routes increase energy security for consumers, producers, and the global energy markets by making deliveries less vulnerable to technical or political disruptions on any individual route; second, in many cases, the decision to choose the most appropriate route reflects a competition between economic interests and strategic concerns; and third, pipeline capacity and availability will, to a large extent, influence the timing of oil and gas development in the Caspian region. For more elaboration of pipeline diplomacy, see Gawdat Bahgat, “Central Asia and Energy Security”, pp. 7-10.

¹⁹ Ni Jianmin ed., *National Energy Security Report*, p.115.

²⁰ M K Bhadrakumar, “Catalysts of conflict in Central Asia,” *Asia Times Online*, Jun 2 2005.

political disputes than economic benefits where oil and gas transportation is concern.

To weaken Russian and Iranian control of Caspian oil and gas, the United States has heavily promoted the newly inaugurated BTC oil-pipeline running from Baku, Azerbaijan to Ceyhan, Turkey, as well as a trans-Afghan natural gas pipeline running from Turkmenistan to Pakistan through Afghanistan, both bypassing Russian and Iranian territories. Moreover, the United States opposes India's plans to strengthen energy cooperation with Iran through the projected Iran-Pakistan-India gas pipeline and has also voiced its objections to the construction of the Atasu-Alashankou pipeline running from Kazakhstan to Xinjiang. With regards to Japan, it does not only compete with China over the Far East Siberian oil pipeline today, but it has also emerged as a player over Caspian oil and gas in recent years. The next part will focus on two examples of oil and power pipelines that illustrate the obstacles involved in international energy cooperation in the Caspian region.

The Baku–Tbilisi–Ceyhan Pipeline

As the Soviet Union disintegrated, the United States announced its strategy of promoting U.S. oil companies' investments in Central Asia and the Caspian Sea region. Backed by the United States, Turkey sought to gain access to Caspian oil by building the Baku-Tbilisi Ceyhan pipeline. In the words of Brzezinski, U.S. strategy toward CEA in 1997 was guided by,

“...regular consultations with Ankara regarding the future of the Caspian Sea basin and Central Asia would foster in Turkey a sense of strategic partnership with the United States. America should also strongly support Turkish aspirations to have a pipeline from Baku in Azerbaijan to Ceyhan on the Turkish Mediterranean coast serve as major outlet for the Caspian Sea basin energy sources.”²¹

There should be no doubt about the weight and significance given to the project from Western contractors and the states involved. The BTC pipeline was originally proclaimed by BP and others as the “project of the century” where Zbigniew Brzezinski, acting as a consultant to BP during the Clinton era, urged Washington to support the project. Indeed, Brzezinski went in 1995 on an unofficial trip to Baku to meet with then-

²¹ Zbigniew Brzezinski, *The Grand Chessboard: American Primary and Its Geostrategic Implications*, p. 204.

President Haidar Aliyev to negotiate new pipeline routes from Azerbaijan, including the now existing BTC pipeline.²²

The BTC plan had more political implications than economic considerations from the very beginning. Officials from the United States, Turkey, Azerbaijan and Georgia have always emphasized the geopolitical role of the BTC pipeline. This pipeline, it was argued, would strengthen the independence of the smaller Caspian states while impairing Russian influence in the CEA region. In 1998, in presence of the U.S. energy secretary, the presidents of Azerbaijan, Georgia, Kazakhstan, Turkey and Uzbekistan signed a joint declaration aiming to promote multilateral cooperation over the exploration and transportation of Caspian oil. As stated by Zhiznin: "The BTC pipeline was regarded as a strategic pipeline and political factors played a leading role in the declaration."²³ In late 1999, during the Organization for Security and Cooperation in Europe (OSCE) summit meeting in Istanbul, the presidents of Azerbaijan, Georgia, Kazakhstan, Turkmenistan and Turkey in presence of U.S. President Bill Clinton signed a series of political documents supporting the construction of the BTC pipeline and a cross-Caspian Sea natural gas pipeline. As Western specialists conclude, "the building of the Baku-Tbilisi-Ceyhan pipeline constitutes a strategic milestone in post-Soviet Eurasia."²⁴

In September 2002, construction of the long debated 1,700 kilometer BTC pipeline began. It opened in May 2005 and with its total cost of US\$3.6 billion it is one of the most expensive oil projects ever. As noted by Zha Daojiong: "This is the first oil pipeline intervened directly and controlled by western countries, and this 'seeking far and wide for what lies close at hand' pipeline implies the American thoughtful motives of

²²F. William Engdahl, "Color Revolutions, Geopolitics and the Baku Pipeline," *Global Research*, June 25 2005 <<http://www.globalresearch.ca/>> (November 5 2006).

²³ Stanislav Z. Zhiznin, *Fundamentals of Energy Diplomacy*, 2 Volumes, 2003, Chinese Version, Translated by Qiang Xiaoyun, Shi Yajun, Chengjian, et al, *International Energy Politics and Diplomacy* (East China Normal University Press, 2005), 126.

²⁴ Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, security experts from the Europe and the United States advocate the geostrategic implications of the BTC pipeline for the South Caucasus countries, Turkey, Iran, Russia, and the United States and Europe. "For the United States and Europe, BTC provides further impetus for western involvement in the energy and security sectors of the wider Caspian basin – and indeed, proves that the lofty but near forgotten ambitions of building an east-west corridor linking Europe to Central Asia and beyond via the Caucasus are not only possible but are being realized." See Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, "Geostrategic Implications of the Baku-Tbilisi-Ceyhan Pipeline", in S. Frederick Starr and Svante E. Cornell, ed. *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Washington: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005).

containing Russia and Iran.”²⁵ In time to come, it is estimated that BTC will have a capacity to transport 1 million barrels of oil per day.

Needless to say, the BTC oil pipeline and its profitability may depend on the ultimate volume of Kazakh oil that is transported on this route. The U.S. has pushed for building a trans-Caspian pipeline that would give Kazakhstan the ability to pipe crude oil through the BTC pipeline.

In addition, the U.S. has been attentive to challenges presented by terrorist groups in CEA, as well as a military presence of Russia and Iran in the region. On that basis, the U.S. is striving to get permanent access to bases in Georgia and Azerbaijan. This, is something which is viewed as a direct strategic provocation by the Caucasus countries' primary antagonists, Russia and Iran. For this purpose the Pentagon has put aside \$100 million for the launch of a Caspian Guard which purportedly is being set up to guard the BTC pipeline. Some of these funds are also reportedly used to build a radar-equipped command center in Baku.²⁶

The objective of the U.S. is “to deny to a single state, other than the U.S. itself, or coalition of powers not including the U.S., the capability to set conditions for accessing the energy resources of West and CEA.”²⁷ In a sense, to control the Caspian Sea would imply control of energy resources in this region, particularly exports from Kazakhstan and Turkmenistan, two main targets of Chinese energy companies in Central Asia.

China-Kazakhstan Oil Pipeline

In 1993, China became a net importer of oil products, and energy demand and imports have increased steadily since. Ten years later, in 2003, China's imports of oil increased 30 percent over 2002 making China the second largest importer of petroleum after the United States, even surpassing Japan in 2004. In 2005, China's oil imports were expected to grow by 10 percent to about 7 million barrels a day. The trend of China's increasing import volumes is set to continue. China will inevitably have to strengthen its pursuit of energy to keep up with demand and the pace of economic growth. This has been partly achieved by seeking to forge more extensive energy ties with Kazakhstan.

In 1997, the news of China National Petroleum Corporation's investment in oil exploration in Kazakhstan greatly surprised western countries and spurred a closer scrutiny of China's potential oil demand

²⁵ Zha Daojiong, *China's Oil Security: International Political and Economic Analysis* (Beijing: Contemporary World Press, 2005), 104

²⁶ Mehdi Parvizi Amineh and Henk Houweling, “The Geopolitics of Power Projection in US Foreign Policy: From Colonization to Globalization”, in Mehdi Parvizi Amineh and Henk Houweling ed., *Central Eurasia in Global Politics: Conflict, Security and Development*, p. 25.

²⁷ *Ibid.*, p. 25.

and the effects that this would have on energy prices.²⁸ The main focus of China-Kazakhstan energy cooperation has in recent years been the construction of the 3088 kilometers Atasu-Alashankou oil pipeline running from the Atyrau oil base in western Kazakhstan to Alashankou in China's Xinjiang autonomous region. In December 2005, the second cross-border phase of the pipeline running 962 kilometers was finished, and its significance should not be underestimated. In the words of William Engdahl: "The pipeline will undercut the geopolitical significance of the Washington-backed Baku-Tbilisi-Ceyhan oil pipeline which opened amid big fanfare and support from Washington."²⁹ Kazakhstan's Vice Energy Minister Musabek Isayev said on November 30, 2005, in Beijing that half the oil pumped through the new 200,000 barrel-a-day pipeline would come from Russia because of insufficient output from nearby Kazakh fields. That was interpreted as closer China-Kazakhstan-Russia energy cooperation – "the nightmare scenario" of Washington.³⁰

The Atasu-Alashankou oil pipeline also represents a partial step into the massive reserves of the Caspian Sea, and especially the Kashagan oil-field located in the north of the Caspian. As the connection between Kumkol and Kenkiyak is completed, the Atasu-Alashankou pipeline will have a direct linkage with Kashagan as the field is developed. In 2005, China imported 1.3 million tons of crude oil from Kazakhstan via Alataw Pass in Xinjiang. Experts predict the figure will climb to 4.75 million tons this year and to around 8 million tons in 2007.³¹ China is expected to become one of Kazakhstan's major target markets.

Chinese experts see three benefits derived from building the China-Kazakhstan pipeline and extending its energy ties with Kazakhstan: First, it will lessen China's dependence on oil from the Persian Gulf, greatly decreasing the risk of Middle Eastern turbulence to China's energy security. Second, the location in the inland of Eurasia will make China's oil supply route safer. And third, it will provide China with a long-term and stable land-based oil supply alternative.³² As the project is completed, it will also represent a major strategic gain as it is "...the first time [China] have secured a source of imported energy not vulnerable to U.S. aircraft carrier battle groups, as is the case with present oil deliveries

²⁸ See Xu Xiaojie, *Geopolitics of Oil and Gas in the New Century: A Closer Look at Challenges Facing China*, pp. 145-46.

²⁹ F William Engdahl, "China lays down gauntlet in energy war," *Asia Times Online*, Dec 21 2005.

³⁰ *Ibid.*

³¹ "Kazakhstan oil piped into China," *Xinhua*, May 25 2006, <http://news.xinhuanet.com/english/2006-05/25/content_4597314.htm> (October 15 2006).

³² Ni Jianmin ed., *National Energy Security Report*, p.140.

from the Persian Gulf and Sudan.”³³ In late May of this year, oil began to flow to Duzishan of Xinjiang through the Atasu-Alashankou oil pipeline. Furthermore, in October 2005, the China National Petroleum Corporation completed a \$4.18 billion takeover of PetroKazakhstan Inc. after Washington blocked China's acquisition of Unocal.

As a result of China's growing power, opportunities have opened in recent years where Russia gradually has come to accept China's strategic leverage in countering American presence in CEA. Indeed, much strategic space could be found for China in the present regional power vacuum but coordination with other outsiders still remains a challenge for China's oil diplomacy.

China has started to pay more attention not only to energy cooperation with Russia regarding the construction of pipelines from the Far East, but also in other projects. The construction of the China-Kazakhstan pipeline was undertaken on the assumption that it would carry not only Kazakh oil, but also transfer Russia's Caspian oil. As the Atasu-Alashankou pipeline opened, China considered asking Russian companies to help fill it until the Kazakh supply was sufficient.

However, the United States has been unwilling to see the success of China's efforts to improve its energy security situation. The American policy toward Central Asian has affected China's room of maneuver. As a specialist on Central Asian affairs has stated,

“...unlike Central Asia, Russia, Pakistan and India, China has made no solid gains from the changes in U.S. policy after 11 September (...) China's drive for influence in Central Asia will become harder now that the United States has ensconced itself in the region, and the American military presence on its western edge complicates China's strategic planning.”³⁴

Apart from U.S. competition, Japan has also become seriously concerned over the pace of China's energy cooperation with Central Asian countries in recent years and launched countermeasures. In the words of Zha Daojiong: “Japan has the intention of constraining China's growing power through the means of transportation of resources.”³⁵ Nowadays, many oil giants from the United States, Great Britain, France, Italy, Canada, Russia and other countries have entered the fields of Kazakhstan, which will bring further complexities and uncertainties to China-Kazakhstan oil cooperation.

³³ F William Engdahl, “China lays down gauntlet in energy war”.

³⁴ Rajan Menon, “The New Great Game in Central Asia,” *Survival* 45, 2 (Summer 2003): 197, 199.

³⁵ For more interpretation of Japan's motivation in Central Asia and China's concerns, see Zha Daojiong, *China's Oil Security: International Political and Economic Analysis*, p. 112-113.

Whither China's Energy Strategy towards Central Eurasia?

An undercurrent of instability and conflict has appeared in the Caspian Sea region. The growing political, economic and military competition among great powers has in recent years made the Caspian Sea, Central Asia and the Caucasus a source of power struggle which indeed may justify labeling it “the Eurasian Balkans” to use the words of Brzezinski. Its significance for China's energy security should not be underestimated. As stated in *the National Energy Security Report*:

“China is a neighboring country of this [Central Asian] region. We must join the regional geo-economic and geopolitical activities for our circumjacent security and oil-supply security (...) The rivalry between the United States (in Central Asia) and Russia will be getting rapidly intense. China should not withdraw from the (great-power) competition in this region for the safety of China's oil supply.”³⁶

Two key questions emerge from this: What are the alternatives for China's oil strategy towards the Caspian Sea region? How should China respond to great-power rivalries in CEA ?

In early June 2005, the Chinese government set up the National Energy Leading Group appointing Prime Minister Wen Jiabao as its head. The purpose of the group is to formulate a strategic plan and policy for energy security and emergencies, and raise energy exploration and reserves, including foreign cooperation and other comprehensive policy suggestions. Zhang Guobao, vice chairman of the National Development and Reform Commission (NDRC) said that China has a large potential to develop new oil and gas resources, especially natural gas, and some 94 percent of China's energy consumption depends on its own supply, with an external dependency rate standing merely at 6 percent.³⁷

In his words, China should adhere to the principle of relying on domestic resources to safeguard energy supply and it should study alternative ways to gradually increase its national oil reserve, rather than buy crude oil from the world market to fill in its reserves when oil prices remain high. However, Zhang also underscored that reliance on domestic resources does not mean rejecting international cooperation. As foreign experts warn,

³⁶ Ni Jianmin ed., *National Energy Security Report*, p.149.

³⁷ Embassy of the People's Republic of China in the United States of America, “China capable of maintaining oil output in 20 years,” September 14 2005, <<http://www.china-embassy.org/eng/xw/t211949.htm>> (November 5 2006).

“[T]he idea that energy security can be improved by reducing import dependence is an obstacle to clear thinking (...) The ‘conventional vision’ of continuing expansion of oil use with some loss of market share and without strongly escalating prices is a reasonable but fragile reference line against which to discuss the dynamics of the future.”³⁸

In fact, China's external oil dependency rate is getting higher, reaching 42.9 percent in 2005.³⁹ In addition, the proven reserve of China will exhaust in 14 years in terms of domestic oil supply.⁴⁰ The question is: when facing the threat of an energy blockade, how can Beijing ensure its oil security with international conflicts along the sea lanes of Asia, including the East and South China Sea, the Malacca Strait, the Hormuz Strait, and the Indian and Pacific Oceans? One of the main concerns of China's energy diplomacy is, according to a Norwegian report, “to secure access to energy for all parts of China at the lowest possible cost, either through domestic production or import.” The report also lists the various worst-case scenarios that will affect on China's oil strategy:

“In terms of threats to its energy security, China's policy makers have three major worries: sudden disruptions in provision of oil to the global market could trigger serious energy shortages and sharp price spikes; China might be affected by disruptions in tankers flows from unstable exporting regions such as the Persian Gulf, Central Asia and Africa; Japan and the U.S. might attempt to deny China vital oil supplies in the event of a confrontation.”⁴¹

Under such geopolitical considerations, “the construction of overland oil pipelines is seen as desirable in order to mitigate China's

³⁸ John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, p276.

³⁹ Embassy of the People's Republic of China in the United States of America, “China's oil consumption, imports decrease in 2005,” March 2 2006, <www.china-embassy.org/eng/gyzg/t233673.htm> (November 3 2006).

⁴⁰ There are several levels energy security concerns: “national security risks” (strategic reserves for military), “securing domestic policies” (to protect freedom to manage internal affairs), “securing foreign policy” (to protect freedom to practice an independent foreign policy) and “long-term costs and effects of sanctions” (to use sanctions to further its foreign policy objectives). See John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, pp. 197-202.

⁴¹ Stein Tønnesson and Åshild Kolås, *Energy Security in Asia: China, India, Oil and Peace*, Report to the Norwegian Ministry of Foreign Affairs, April 2006, p. 19. <www.prio.no/files/file47777_060420_energy_security_in_asia_final_.pdf> (November 5 2006).

vulnerability.”⁴² From this perspective, the CEA region would be China’s preference for oil and gas supplies through overland pipelines.

The Strategic Implications of Strengthening China-Central Asia Oil Cooperation

China’s foreign policy in the 21st century is facing fundamental challenges from the geopolitics of energy. China’s growing investments in, and deepening political relationships with, energy producing nations in Central Asia reflect its perceived “energy vulnerabilities” and a desire to ensure energy security by diversifying supply away from Middle Eastern sources. Geopolitically, one of the most important questions for China is also to “stabilize the west side” and its western border.⁴³ The difficulty is how to maintain a stable situation in CEA when China’s strategy towards its western neighbors in CEA has to consider oil supply and geopolitical challenges simultaneously. Strengthening close energy relations with the Central Asian countries has remarkable implications for China’s energy strategy, not least since the oil-rich Caspian Sea is regarded as the second “Persian Gulf”. Therefore, China’s close energy relationship with Central Asian countries will play an important role in improving China’s economic growth.

In addition, the diversification of oil resources is an important component of China’s oil security. The Middle East has been the main source of oil for China’s imports, but it is the most turbulent region in the world, particularly after the United States’ invasion of Iraq in 2003 which only endangers China’s energy security as China’s vulnerability on oil from the Persian Gulf grows.⁴⁴ China has sought diversification by enhancing oil cooperation with oil-rich African countries, such as Sudan and Nigeria, Latin American countries, most notably Venezuela, and Central Asian countries such as Kazakhstan and Turkmenistan. Since the proportion of oil imported from Central Asia is relatively low, bilateral oil cooperation has a large potential in the future. Besides, China should engage with states in Central Asia that has achieved a relatively high level of security and stability, and states where it already has obvious geopolitical advantages when competing with other outsiders.

Lastly, China’s energy strategy shares the same feature of diversification with Central Asian countries. In order to maintain economic independence the former Soviet republics, and especially Kazakhstan and Turkmenistan, have carefully sought to navigate between the competing great powers, especially the United States and Russia, striving to avoid being played by any one actor against the others. China’s entry into this region can provide new oil pipelines and further

⁴² *Ibid.*, p. 20.

⁴³ Ye Zicheng ed., *Geopolitics and China’s Foreign Policy* (Beijing: Beijing Press, 1998), 25.

⁴⁴ For more explanation of the dangers facing China’s energy strategy, please see Ni Jianmin ed., *National Energy Security Report*, pp. 140-41.

options for these inland states due to its role as a balancing force between Washington and Moscow.

Measures for China's Energy Strategy toward Central Asia

China has invested steadily in Central Asia since the early 1990s, and given special weight to the potentials of Kazakhstan to act as a supplier. This included both oil exploration, pipelines and refinery facilities, and at the turn of the century China also accelerated its engagement with the region. This year China has signed a major agreement with Turkmenistan and Turkmen President Saparmurat Niyazov for selling China natural gas and building a gas pipeline linking the two countries.⁴⁵

China is also helping to develop oil fields in Uzbekistan and hydroelectric power projects in Kyrgyzstan and Tajikistan. Given the intense oil and pipeline competition among the great powers, having a presence in Central Asia above all means having access to the enormous Caspian Sea oil reserves. China should consider its strategy toward Central Asia from a geopolitical view and take the following measures.

First, China should support the SCO to be not only an international organization for fighting the “three evils” of extremism, terrorism and separatism, but also for promoting greater economic integration and energy cooperation. Under the aegis of the SCO, China has also established mutual military confidence measures by holding joint military exercises with Kyrgyzstan in 2002 and other SCO members in 2003 and established an anti-terror center in Tashkent. The Central Asian states share the “Five Principles of Peaceful Coexistence” with China. They all oppose any dominating activities by any great power and maintain independent and balanced foreign policies, and it is also to the benefit of China, the late-comer, to develop close relationships with them. The deepening of political and economic cooperation under the SCO framework has been accelerating in recent years since China and Russia regard regional economic integration to be a primary interest for their own national security.⁴⁶ In terms of the “Going West” development strategy, China's domestic longest pipeline, the 4,200 kilometer Tarim Basin to Shanghai gas pipeline, could potentially be extended to Kazakhstan and Turkmenistan and even further to other Caspian states by linking up with the Atasu-Alashankou pipeline.

⁴⁵ “China, Turkmenistan Agree on Gas Pipeline,” *China Daily*, April 4 2006, <http://www.chinadaily.com.cn/china/2006-04/04/content_559250.htm> (November 3 2006).

⁴⁶ As Mehdi Parvizi Amineh says, “Most actors involves in the region would rather benefit from converting CEA from a zone of geopolitical competition and confrontation to one of cooperation. Political stability and socio-economic development in this region will be crucial for global peace and security.” See Mehdi Parvizi Amineh, *Globalization, Geopolitics and Energy Security in Central Eurasia and the Caspian Region*, p. 27.

Second, China should work with Russia to improve the SCO's relationship with Turkmenistan and Afghanistan. Without the membership and participation of Ashgabat and Kabul (let alone observer status), the SCO falls short of its capacity to develop regional economic integration and energy cooperation. In a sense, Afghanistan is becoming the new "colony" of the United States following the military intervention in Afghanistan. Turkmenistan, in turn, has pursued a foreign policy of neutrality and independence while facing growing security challenges from the south, especially from Iran and Afghanistan. As Iran gained observer status in the SCO in 2005, this will further promote regional integration and the feasibility of joint infrastructural projects. For example, the chances of building the proposed oil pipeline from Kazakhstan via Turkmenistan to Iran may be raised if this is coordinated through the SCO. Such a pipeline would further propel the prospects of regional integration and interdependence.

Meanwhile, China should reassess its foreign policy towards Iran considering the heavy oil dependence on that country. China currently receives 13.6 percent of its oil imports from Iran, and in March 2004, China signed a \$100 million deal with Iran to import 10 million tons of liquefied natural gas over a 25-year period. The deal was conditional upon Chinese investment in Iran's oil and gas exploration, petrochemical and pipeline infrastructure. For China-Iran relations, there is nothing more important than oil cooperation. The most urgent measure to take is for China to be involved in planning the construction of a pipeline from Iran to the Caspian Sea to link up with the planned pipeline from China to Kazakhstan.

Third, due to the effects of geopolitics in the CEA region, China is better off exploring bilateral and multilateral oil cooperation when implementing its overseas oil strategy.⁴⁷ There are arguments that China's growing presence on the international energy stage could ultimately bring it into confrontation with the world's largest energy consumer, the United States. In fact, China's oil strategy is driven by economic benefits based on the principle of mutual trust and equality. China's oil expansion strategy mainly gives prominence to economic presence, not the presence of political alignment, military forces, or military threat. However, the argument of "China's oil threat" could hamper Beijing's efforts to improve oil cooperation among SCO countries if neglecting the establishment of bilateral or multilateral trust with other external powers. As stated by a group of analysts: "Cooperation to achieve and share the benefits of certain major energy 'projects', defined in the widest sense, could contribute to wider

⁴⁷ For more elaboration of the "going out" strategy for China's oil company, please see Ni Jianmin ed., *National Energy Security Report*, pp. 420-423.

cooperation and put constraints on the development of conflicts.”⁴⁸ The Sino-Indian agreement on securing overseas crude oil resources is a good example on the intentions of China's oil strategy, and may be used to enhance the reputation of China's strategy internationally.

⁴⁸ John Mitchell with Peter Beck and Michael Grubb, *The New Geopolitics of Energy*, Energy and Environment Programme, Royal Institute of International Affairs, 1996, p. 190. For the question of how to improve the capacity of energy-importing countries to diversify the long-term supplies and build capacity to deal with short-term disruption of oil supply, please see John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, *The New Economy of Oil: Impacts on Business, Geopolitics and Society*, pp. 273-74.

China's Central Asia Policy in Recent Times

*Ramakant Dwivedi**

ABSTRACT

The disintegration of the former Union of Soviet Socialist Republics (USSR) opened up phenomenal opportunities for China to exercise and influence the ongoing political-economic processes in the Central Asian region. Apart from the independence gained by the Central Asian Republics and their ability to operate as sovereign national entities, it is the first time in the history of Central Asia that the region is exposed to various external actors like the U.S., Turkey, the Arab World, Iran, South Korea, and Japan. China, being contiguous to the region, has a great opportunity to influence developments in Central Asia. What are Chinese interests in Central Asia? How has China been advancing these interests within the framework of bilateral and multilateral interactions? What role does the Shanghai Cooperation Organisation (SCO) play in balancing the role of major powers in Central Asia? What implications do increasing interactions between the Central Asian Republics and China have for the security, political and economic spheres of India? This article attempts to address these questions critically.

Keywords • Central Asia • China • India's Relations with Central Asia • Shanghai Cooperation Organization

Introduction

The disintegration of the Soviet Union in 1991 and the subsequent emergence of the five independent Central Asian Republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan have led to fundamental changes in the geopolitical landscape of Eurasia. China, like other states bordering the Central Asian region (Russia, Iran and Afghanistan), also faces a changed geopolitical situation on its borders. The Chinese Xinjiang Uyghur Autonomous Region (XUAR) shares a long and common border with Kazakhstan, Kyrgyzstan and Tajikistan. During the Soviet period, China's northern and western borders had been troubled areas due to the Sino-Soviet acrimony. In 1954, the Chinese government published a map showing parts of Kazakhstan, Kyrgyzstan and Tajikistan as Chinese territory and claimed that Tsarist

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Russia had annexed these territories in the 1880s.¹ Though Moscow and Beijing had started a dialogue to resolve their border dispute in 1987, the collapse of the Soviet Union left the issue unsettled. These talks were initiated after General Secretary of the Communist Party of the Soviet Union (CPSU), Mikhail S. Gorbachev's July 1986 speech in Vladivostok in which he offered to hold talks with Chinese leaders on the Sino-Soviet border dispute. After the collapse of the Soviet Union, the Chinese government was very apprehensive about its western border. In August 1991, the Chinese Vice-President, Wang Zhen, instructed the People's Liberation Army (PLA) in Xinjiang to "form a steel wall to safeguard socialism and unification of the motherland."²

Clearly then, in the early 1990s maintaining stability in Xinjiang and resolving the border dispute with Russia and the Central Asian Republics was at the top of the Chinese agenda. Subsequently, energy issues, reviving 'Silk Route' trade, and dealing with threats from international terrorism, religious extremism and drug trafficking became important factors in China's strategic calculus. Over the last 15 years, China has been able to develop close and friendly ties with the Central Asian Republics and overcome past uncertainties over border disputes, threats from terrorism, ethnic nationalism and religious extremism. In the 19th century, Central Asia was the arena of the "Great Game" in which Tsarist Russia and the British Empire competed for strategic primacy.³ Today, the U.S., Russia and China are competing for similar supremacy in the region. The U.S.' involvement in the region in the post-9/11 period is another significant factor in China's Central Asia policy.

China's Interests in Central Asia

After the collapse of the Soviet Union, China was concerned whether the *Vladivostok Initiative* of 1986 of Mikhail Gorbachev could be sustained. The *Vladivostok Initiative* was aimed at improving relations between the former USSR and China. It also paved the way for border dispute negotiations between Russia, China and the three Central Asian Republics of Kazakhstan, Kyrgyzstan and Tajikistan. At the end of twenty-two rounds of talks in 1996, two important agreements were signed to settle their border issues: Deepening Military Trust in Border

¹ Michael Freeberne, "Minority Unrest and Sino-Soviet Rivalry in Sinkiang, China's North-Western Frontier Bastion, 1949-1965," in Charles A. Fisher, ed., *Essays in Political Geography* (Butler & Tanner Ltd., London, 1968), 199-204.

² P. Stobdan, "China's Central Asia Dilemma," *Strategic Analysis* 22, 3 (June, 1998): 399-400. Also see John W. Garver, "The Chinese Communist Party and the Collapse of Soviet Union," *The China Quarterly* (March 1993): 96-98.

³ Peter Hopkirk, *The Great Game: The Struggle for Empire in Central Asia* (John Murray Publishers Ltd., London, 1990), 74-79.

Regions and Reduction of Military Forces in the Border Areas. These agreements provided that each party was to refrain from staging military exercises directed against the other. They also specified restrictions on military exercises in terms of scale, area and the number of such exercises that were permitted. In addition, all important military activity initiated by one party in the area between the border and 100 kilometers from the border line, needed to be announced to the other and an invitation to observe the exercises was also to be extended. Finally, the agreement also asserted that measures should be taken to prevent dangerous military activities and enhance friendly exchanges of armed forces in the border areas.⁴ Resolution of these border issues implied that Russia and China had moved from confrontation to dialogue and from conflict to cooperation.

There is a major emphasis given to the periphery in Chinese strategic thinking. Its peripheral security has the following two goals:

- To maintain stability within its territory adjoining the boundary and to ensure the security and economic welfare of its people; and
- To ensure peace and stability on the border by promoting a belt of good neighborliness and friendship.⁵

The volatile situation in the Xinjiang province of China is an important determinant in China's Central Asia policy.⁶ Here, the Uyghurs have been struggling for greater autonomy and independence for decades. Uyghurs living in Kazakhstan, Kyrgyzstan and Tajikistan have strong ties with the Uyghurs in the Xinjiang province of China.⁷ After the collapse of the Soviet Union and the subsequent emergence of independent and sovereign states in the Central Asian region, Uyghurs living in and outside Xinjiang have visualised the possibility of an independent "East Turkistan." The struggle for independence has been going on since 1949 when the Muslim state of East Turkistan was incorporated into China.⁸

⁴ Guangkai, General X., "Promote Shanghai Spirit and Boost Peace and Development," *International Strategic Studies* (June 4, 2004): 1.

⁵ Interview with Prof Nirmala Joshi, former Chairperson of the Centre for Russian and Central Asian Studies, School of International Studies, Jawaharlal Nehru University, New Delhi May 1, 2005 and Prof Zhao Huasheng, Centre for Russian and Central Asian Studies & Centre for Shanghai Cooperation Organisation, Fudan University, China. Interview with Prof Zhao was conducted in Almaty, Kazakhstan May 7 2006.

⁶ Graham Fuller and Frederick Starr, *The Xinjiang Problem* (Washington: Central Asia-Caucasus Institute, 2003), 9.

⁷ The author visited Kyrgyz-China bordering areas in 2003 and noticed that there is strong feeling for the Uyghurs living in Chinese province of Xinjiang.

⁸ Dru Gladney, "Islam in China," *Turkistan Newsletter*, November 15 2001, p. 457.

Today, the restive Uyghurs are likely to look to the Central Asian Republics (CARs) for support in their cause. According to official statistics, Central Asia is home to more than 300,000 Uyghurs, of whom 210,000 live in Kazakhstan, 46,000 in Kyrgyzstan and about 30,000 in Uzbekistan.⁹ The Chinese government is apprehensive of popular support to “East Turkistan” in Xinjiang and among the Uyghurs living in Kazakhstan, the Kyrgyz Republic and Tajikistan. The specter of Uyghurs on both sides of the border uniting and making a concerted effort to fulfill their aspirations has fuelled fears of a potential breakup of the Xinjiang region. China’s goal is to neutralize the Uyghurs and their quest for support from the Central Asian Republics through the Shanghai Cooperation Organisation (SCO). China would address concerns vis-à-vis Central Asia on rise of religious extremism, terrorism and forces of aggressive nationalism and sideline the Uighur issue.

The fall of Najibullah’s government in Kabul in 1992 and the “victory” of the Mujahideen led to Afghanistan becoming a stronghold of extremism. The Taliban’s “victory” in 1996 provided an additional stimulus to the forces of extremism and terrorism in Central Asia. Furthermore, the Tajik Civil War (1992-97) and the emergence of religious extremist groups – Islamic Movement of Uzbekistan (IMU), Islamic Movement of Turkistan (IMT) or Islamic Party of Turkistan (IPT) and Hizb-ut-Tahrir (HuT) – in the Ferghana Valley and other parts of Central Asia has created challenges to security and stability in the region.

A series of disturbing events – the Tashkent bombing in February 1999, the incursions into Kyrgyzstan and Uzbekistan in August 1999, August 2000, July 2001 and the May 12-14, 2005 events in Andijon city in the Ferghana Valley in Uzbekistan – have drawn attention to the growing role of religious extremist forces in Central Asia. This has also caused a significant change in threat perceptions of religious extremist forces. The Islamic Movement of Turkistan (IMT), also known as the Islamic Movement of Uzbekistan (IMU) until the middle of 2003, and Hizb-ut-Tahrir (HT) – the two leading extremist groups – have openly declared their objective of overthrowing the constitutional system and to create an Islamic Caliphate in Central Asia. While declining economic conditions, corruption, sense of injustice and non-accommodative polity have given more space to IMT and HT to operate, the ideological onslaught by often foreign-backed religious forces, an unremitting flow of foreign funds and the unresolved conflict in Afghanistan are the principal factors for the growth of extremism in Central Asia.¹⁰ The

⁹ K. L., Syroezhkin, “Myth and Reality of Ethnic Separatism in China and Security of Central Asia,” *Daik Press*, 2003, p. 703. (In Russian)

¹⁰ Ramakant Dwivedi, “Religious Extremism in Ferghana Valley,” *Strategic Analysis* 30, 2 (April-June 2006): 403-419.

Andijon events on May 12-14, 2005 in Ferghana Valley where clashes between Uzbek security forces and rebels resulting in the death of between 200¹¹ to 500 people according to differing reports,¹² and are likely to influence the geopolitics in Central Asia for some time to come. There is a difference of opinion among some experts who hold religious extremists responsible for the Andijon crisis while others blame the Uzbek government for its indiscriminate use of force.¹³

The IMT and HT's declared objective of overthrowing constitutional systems in Central Asia also includes the Xinjiang Uighur Autonomous Region (XUAR). In a report released on January 21, 2002, the Chinese Government accused religious extremists and international terrorists based in Afghanistan for supporting Uighur "separatists" in Xinjiang province. The State Council report was released on the eve of Afghan President Hamid Karzai's first state visit to China. According to the report: "Statistics show that from 1990 to 2001, the 'East Turkestan' terrorist forces inside and outside China were responsible for over 200 terrorist incidents in Xinjiang which resulted in the death of 162 people of all ethnic groups, including grassroots officials and religious personnel, and injuries to more than 440 people."¹⁴ The Central Asian Republics and China share this "extremist/separatist" threat perception.

September 11 was a turning point in the fight against terrorism and religious extremism in Central Asia. With the emergence of Afghanistan as the epicenter of international terrorism and religious extremism, an international endeavour to fight this challenge became inevitable. This needed coordination and cooperation from all states in the region and beyond. Russia had been facing challenges and threats to its territorial integrity from its southern Autonomous Republic of Chechnya for quite some time. There, Chechen extremists with connections to their Afghan counterparts, have been waging a war against Moscow for a separate Chechen Islamic Republic. It was based on this backdrop that Moscow extended support to *Operation Enduring Freedom*. While China has supported the U.S.-led war against terrorism, it suspects that western countries, especially the U.S., has a hidden agenda for control of the natural resources of Central Asia and would like to encircle China from

¹¹ As reported by UzReport, <www.uzreport.com> (June 15 2005).

¹² These reports were published on various websites accessed on May 18, 2005, see for instance: <www.iwpr.net>; <www.eurasianet.org>; <www.rferl.org> (May 18 2005).

¹³ P. Stobdan, "Talking Heads," *Hindustan Times*, June 23 2006. Also see, Shirin Akiner, "Violence in Andijon May 13 2005: An Independent Assessment," Silk Road Paper, Central Asia-Caucasus Institute & Silk Road Studies Program, July 2005.

¹⁴ "East Turkestan terrorist forces get away with impunity", information office of the State Council, *Beijing Review*, January 31 2002, pp. 14-23, as cited in Sujit Dutta, "China's Emerging Ties with Central Asia," In Nirmala Joshi, ed., *Central Asia: The Great Game Replayed- An Indian Perspective* (Delhi: New Century Publications, 2003), 150.

the western flank. The presence of the U.S. military at Ganci airbase near Manas airport in Kyrgyzstan, just 200 km from the Chinese border has further strengthened these apprehensions. The unilateral military action by the U.S. and its allies against Iraq in 2003 is perceived by China as an assertion of unipolarity.

The North Atlantic Treaty Organization's (NATO) "eastward enlargement" is another factor which has influenced Beijing's policy initiatives in Central Asia. It was expected that NATO would cease to exist after the end of the Cold War. However, Washington, along with its allies, decided to enlarge it by including new members from Eastern Europe. This enlargement is aimed at promoting democracy, human rights and civil society in the former Soviet political space. New democratic systems are projected as capable of addressing problems created by instability, transition and rising expectations.

A series of "Color Revolutions" – the "Rose Revolution" in Georgia in 2003, the "Orange Revolution" in Ukraine in 2004 and the "Tulip Revolution" in the Kyrgyz Republic in March 2005 – in the wake of rigged parliamentary and presidential elections created uneasiness in Beijing. These developments increased China's concerns about Uyghur restlessness getting externally exploited.

China and Russia extended full support to Uzbek President Islam Karimov for his handling of the Andijon events of May 2005, and China was the first country visited by President Karimov after Andijon. The visit helped the Uzbek government face mounting international pressure for an international enquiry into the events in Andijon. These pressures were primarily exerted by the U.S. and the European Union. For example, U.S. State Department spokesman Tom Casey said: "Until Uzbek authorities allow an independent and credible investigation to occur, we cannot know who was responsible or was involved."¹⁵

Chinese involvement was strengthened after Uzbek scholars termed the Andijon events a direct interference by the U.S. in the internal affairs of Uzbekistan.¹⁶ Chen Xiangyang, for example, questioned the role of the U.S. in promoting democratic transformations in the region and saw it as interference in the internal affairs of these sovereign states. An assessment emerged that the "Color Revolutions" violated the sovereignty and threatened the legitimate governments of the Central Asian Republics. They also provided an opportunity for terrorist and extremist forces to manipulate the situation in their favor.¹⁷ But

¹⁵ C. J. Chivers and Thom Shankar, "Uzbek ministers in Crackdown received U.S. Aid," *New York Times*, June 18 2005.

¹⁶ Dinora Azimova, "Is it Democracy or imposition of an ideology?," *UzReport* <www.uzreport.com> (June 24 2005).

¹⁷ Chen Xiangyang, "Assessment of International Situation and China's Security Environment in 2005," *Foreign Affairs Journal* 78 (December 2005): 24.

governments in the region must also address the declining economic conditions, lack of political pluralism and nepotism in these countries.¹⁸ Local politics and disillusionment against the Akayev government were important factors contributing to the "Tulip Revolution."

China and Russia also have common interests regarding U.S. efforts to promote democratic transformation in Central Asia. Both want to contain U.S. influences in the region and address non-traditional threats to security and stability. Instability in the region will have wide ramifications for both Russia and China due to the region's geographical proximity. This is addressed in the Treaty of Good Neighborliness, Friendship and Cooperation signed by both countries in 2001.

The quest for energy security is also transforming China's engagement in Central Asia. China's demand for imported oil is projected to rise from the present requirement of 60 million tonnes to 250-300 million tonnes annually by 2020,¹⁹ and China wants to reduce its dependency on West Asian (Middle Eastern) oil. If a conflict erupts over Taiwan, current oil supply lines would be seriously affected. Therefore, participation in the energy development projects in the Central Asian Republics is an important part of China's energy strategy. Indeed, the Central Asian Republics provide a fertile ground for such cooperative projects. China has invested or pledged substantial amounts of money in joint ventures along with Central Asian oil and gas companies such as Petro-Kazakhstan, Turkmen Neftegas and Uzbek Neftegas. China is working on new gas and oil pipelines connecting the Central Asian Republics to its pipeline network in Xinjiang. Projects are also underway for a network of roads and rail lines that connect China's west to Russia, Europe and West Asia.

Clearly, China's interests in Central Asia have widened from stability at the borders to encompass energy security, geopolitics and combating extremists, terrorists, as well as "nationalist/ separatist" forces. At the same time, China's new security doctrine has undergone a change. Commenting on these concepts, Lieutenant General A. Klimenko said:

"Amid the ongoing globalization it is just as important to have a certain exclusive zone of influence or in Chinese terminology, living space, which can be used for economic, scientific and technological development as well as in the interest of ensuring the country's security."²⁰

¹⁸ Ramakant Dwivedi, "Kyrgyzstan in the Throes of a Revolution," *Asian Affairs* (May, 2005): 20-21.

¹⁹ Lt.-Gen. A. Klimenko, "The Evolution of China's Military Policy and Military Doctrine," *Military Thought* 14, 2 (2005): 49.

²⁰ *Ibid.*, p. 50.

While on strategic borders, he said:

“Chinese theoreticians believe that the strategic borders of the living space of major powers go far beyond their state orders while the ‘living space’ of many ‘weak’ states sometimes has strategic borders that do not correspond to their ‘aggregate power’; this can lead to a loss of territory.”²¹

China’s Central Asia Policy

In the past, China’s policies towards its northwestern frontier could be summarised in one word, i.e., defence. Now, the main thrust of Chinese policy is on opening the borders. For the Central Asian Republics, China also becomes the natural choice given their landlocked position.²² The sudden disintegration of the Soviet Union presented both challenges and opportunities to Beijing; challenges include a new geopolitical situation on its borders whereas opportunities include a possibility for the revival of the “Silk Route.” China’s security and economic policies in the Central Asian Republics rest upon countering terrorism, religious extremism and Uyghurs’ independence, bilateral and regional economic cooperation, military cooperation, and countering the influence of major powers inimical to China and Central Asia’s multilateral security arrangements.²³ China has taken major initiatives in order to secure its core geopolitical and geo-economic interests. These include border dispute resolution, reduction of military forces in the border regions, deepening military trust, good neighbourliness, friendship cooperation agreements, and the Shanghai Five initiative which later became the Shanghai Cooperation Organisation.

Boundary Issues between China and the Central Asian Republics

China and the Central Asian Republics of Kazakhstan, the Kyrgyz Republic and Tajikistan have resolved contentious boundary issues which were pending for a long time. China and Kazakhstan signed a *Protocol on the Demarcation of the State Line* in Beijing on May 10, 2002 demarcating and delimiting the 1740 km long boundary between the two countries. This agreement, based on existing legal documents including the first Chinese (Qing Dynasty) and Russian (Tsarist) boundary agreements of the 18th century, was signed by Chinese Foreign Minister, Tang Jia Xuan and his Kazakh counterpart Kassymzhomarat Tokayev. Later on, this

²¹ *Ibid.*, p. 51.

²² Yongjin Zhang and Rouben Azizian, eds., *Ethnic Challenges Beyond Borders: Chinese and Russian Perspective of the Central Asian Conundrum* (Basingstoke, 1998), 43.

²³ Dutta, Sujit, no. 11. p. 157.

was ratified by the Kazakh parliament.²⁴ The Kyrgyz Republic and China, in turn, signed two Protocols in 1996 and 1999 to settle their boundary dispute. The Kyrgyz Republic ceded 30,000 of hectares territory to China under the 1996 agreement which was subsequently ratified by the Kyrgyz Parliament in 1998. Under the 1999 agreement, China got an additional 95,000 hectares of land. These two agreements helped to normalise and develop cordial relations between Bishkek and Beijing.²⁵ Opposition parties initially protested against the agreements but Kyrgyz President Askar Akayev's assurances about the fairness of the deal pacified them. These agreements were ratified by the Jogorku Kenesh (Parliament) of the Kyrgyz Republic on May 7, 2002.²⁶ Tajikistan and China signed an agreement in May 2002 during Tajik President, Imomali Sharifovich Rakhmanov's visit to China. Under this agreement, Tajikistan ceded 1000 sq. km of territory to China in return for China's withdrawal of claims on 28,000 sq. km of Tajik territory.²⁷ This agreement was ratified by the Tajik Majlis (the parliament) in 2005.²⁸

China, being the world's second-largest oil consumer after the United States is, as mentioned above, attaching high priority to accessing oil and gas reserves in the Central Asian Republics. The Chinese government wants to diversify energy imports and lower dependence on West Asia. China's energy security comprises the following elements: to diversify the sources of energy imports and increase the share of oil and gas imports from Russia and Central Asia; increase overseas investments by state oil companies; broaden ways of trade to avoid transactions risk; enhance the investments in oil and gas infrastructure and open more channels to imports; establish government controlled strategic petroleum reserves; adjust energy consumption and production structure and reduce dependence on oil through coal gasification; liquefaction and development of nuclear power; and actively participate in the formation of a regional community and establish a regional energy system.²⁹

With the opening of the Atasu-Alashankou oil pipeline running from central Kazakhstan to western China in May this year, Beijing achieved a big success in reaching out to Central Asian hydrocarbon resources. The

²⁴ "Kazakhstan and China sign Border Demarcation Deal in Chinese Capital," *Kazakhstan Daily Digest*, May 13 2002.

²⁵ Prof Marat Saralinov, Talk on "Kyrgyz Perspective on International Affairs," IDSA, New Delhi, April 17 2006. Prof Saralinov was one of the Members of the Border Dispute Negotiation Committee of the Kyrgyz Republic.

²⁶ *Ibid.*

²⁷ "Tajiks to cede border territory to China," Reuters, May 23 2002.

²⁸ Interview with Sohrob Rajabov, First Secretary, Embassy of Tajikistan in India, June 28 2006.

²⁹ Stephen Blank, "China in Central Asia: The Hegemon in Waiting?" In Ariel Cohen, ed., *Eurasia in Balance: The US and Regional Power Shift* (Burlington, 2005), 161.

construction of the 988-kilometer long pipeline started in September 2004 and was finished in ten months, with China financing the entire project through an investment exceeding \$800 million. According to the Kazakh Minister of Energy and Mineral Resources, Vladimir Shkolnik, Chinese investments in Kazakhstan's oil and gas sector are completely justified, since between 2010 and 2020 Chinese oil consumption is expected to rise from 355 million tonnes to 500 million tonnes annually, and China's oil deficit will increase by 240 million tonnes.³⁰ In early June this year, the China National Petroleum Corporation (CNPC) signed an agreement with Uzbekistan to invest \$210 million in oil and gas exploration over the next five years. Beijing and Ashgabat signed a General Agreement on Building a Gas Pipeline from Turkmenistan to China on April 3, 2006. Article 2 of the Agreement states: "The Chinese Party will purchase 30 billion cubic meters of natural gas annually from Turkmenistan at the Turkmenistan border over 30 years, starting from the date the Turkmenistan-China gas pipeline is commissioned in 2009."³¹ China's President Hu Jintao and Niyazov also simultaneously signed an agreement on a pipeline project that would bring gas supplies from Turkmenistan to China via Uzbekistan. In addition, China is pressing ahead with the construction of a railway line linking Uzbekistan and China's Xinjiang province via Kyrgyzstan. This clearly demonstrates China's political and economic commitments to ensure oil and gas supply from the Central Asian Republics.

China is also involved in developing infrastructure facilities in the region. Beijing signed a deal on June 14, 2006 for the construction of a highway in Tajikistan, and officials also announced financial plans to build a hydropower station in Kazakhstan. On June 16, 2006, Beijing allocated \$50 million for a loan to improve Uzbekistan's irrigation system. Chinese officials have also offered to link all six SCO member-states via a fiber-optic network by 2010 to boost communications.³²

As noted by Professor Wang Jiangping of the Shanghai Normal University:

"China has very rich resources, like oil, gas, and metals ...and also China has very strong human resources; and experienced, skillful Chinese workers can play a very important role to help the Central Asian Republics build some basic infrastructure – such as highways, electrical power stations, and factories. And, of course, China can supply light-industry production to

³⁰ *Izvestiya Kazakhstan*, December 17 2005.

³¹ *Neytralnyy Turkmenistan*, April 4 2006.

³² Gulnoza Saidazimova, "China Makes Further Economic Inroads into Central Asia", *RFE/RL News-line*, June 22 2006.

Central Asia. So, in many ways, China can contribute to the economic development of Central Asia."³³

Needless to say, energy security is given a high priority by China and its ties with energy-rich Kazakhstan and Turkmenistan are significant and also have major potential. Chinese investments in the Kazakh energy sector are substantial. It is involved at all levels in this activity from exploration and construction of export pipelines to outright purchase of energy supplies.

Another major area of Chinese activity is in the sphere of communications where China is involved in road construction and restoration. Renovation of the China-Kyrgyzstan-Uzbekistan transnational highway is underway and the road connecting China with Tajikistan was recently completed. The possibility that this transport corridor could provide access for Tajikistan and China to the Indian Ocean via Afghanistan and Pakistan appears high. Greater connectivity between China and the Central Asian Republics would improve prospects for increased trade tremendously, and border trade with Kazakhstan and Kyrgyzstan is already flourishing.³⁴

China has signed Treaties of Good Neighborliness and Friendship with Kazakhstan and Kyrgyzstan, and Beijing upgraded its political ties with Kazakhstan to the level of Strategic Partnership in 2005. Thus, we see strong politico-economic initiatives from China in the Central Asian region. China and Kyrgyzstan have also held joint anti-terrorism exercises near the Irkeshtam crossing on the Kyrgyz-Chinese border involving the armed forces of both countries.³⁵ Another striking feature is that China is pursuing a vigorous diplomacy marked by regular exchange of visits at the highest level. This is in addition to the annual meetings of the SCO, which provide a good opportunity for exchange of views.³⁶

Within the SCO, grouping together the Central Asian Republics (minus Turkmenistan), plus China and Russia, the two latter countries are jointly working for regional integration and China has pledged \$ 900 million to finance SCO projects.³⁷ Russia is also assuming a lead role in propelling the Eurasian Economic Community (EEC) to become an integrating factor in the former Soviet space. The Eurasian Development Bank, which was created by Kazakhstan and Russia, is expected to

³³ *Ibid.*

³⁴ Interview with Prof Nirmala Joshi.

³⁵ As reported at: <<http://english.people.com.cn>> on September 24 2005.

³⁶ Interview with Prof Nirmala Joshi.

³⁷ M. K., Bhadrakumar, "Why Uzbekistan matters to India," *Rediff*, April 13 2006, <<http://in.rediff.com/news/2006/apr/13uzbek.htm>> (April 15 2006).

finance the Eurasian Economic Community (EEC) projects with a paid-up capital of \$ 1.5 billion.³⁸

Beijing has also been very successful in securing its presence in Kazakhstan, Turkmenistan and Uzbekistan's energy sector. On a broader level, China has met with considerable success in pursuing a strategy of advancing loans and making investments in the Central Asian countries in developing their economies as a whole, leading to enduring relationships with commensurate benefits in the energy sector.

The Shanghai Cooperation Organisation (SCO)

The sixth summit of the Shanghai Cooperation Organisation (SCO) was held in Shanghai on June 15, 2006 in the backdrop of changing geopolitical shifts in the Central Asian region. The change is caused by a Russian reassertion of influence in Central Asia, increasing engagement of China with the Central Asian Republics, both at the bilateral and multilateral levels, and U.S. moves to gain lost ground in the region. The Colour Revolutions in the former Soviet republics and the Andijon events during May 12 to 15, 2005, in the Uzbek part of the Ferghana Valley, which was followed by a U.S. military withdrawal from Uzbekistan, have created concerns of a re-play of the "Great Game" in Central Asia.

Back in the 1990s the Shanghai-Five, the predecessor of the SCO, had focused on peace and stability on China's common borders with Russia, Kazakhstan, Kyrgyzstan and Tajikistan. After the settlement of the border issues, the primary Chinese concern was to maintain peace and stability on its border, since the core of the Shanghai spirit was good neighbourly attitude, friendship and cooperation. With the rise in non-traditional threats and the vulnerability of the Central Asian Republics to these dangerous forces, the security agenda of the Shanghai-Five gradually began to expand.

The Shanghai Five's (Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan) first meeting in 1996 in Shanghai and the second meeting in 1997 in Moscow laid the foundation of the current SCO. The primary objective of the 1998 meeting in Almaty of the Shanghai Five was to make progress on the joint statements of the 1996 and 1997 meetings, including the remaining border disputes and to make the organization more active in resolving regional issues. During the Cold War, Central Asia had a high concentration of opposing Soviet and Chinese forces. Indeed, the Shanghai Five decided to turn what was once a major zone of tension into a zone of security. The Shanghai Five meeting in 1999 in Bishkek was successful in the sense that it revived "Silk Route" trade and helped create greater economic integration of the Central Asian Republics, Russia and China. The Dushanbe meeting of the Shanghai

³⁸ *Ibid.*

Five in 2000 highlighted the collective fight against international terrorism, religious extremism and separatism and Uzbekistan was also admitted as an observer during this summit. In June 2001, the Shanghai Five extended full membership to Uzbekistan and the mechanism became the Shanghai Six. This was followed up on June 15, 2001 as all six Heads of State signed the Declaration of the Shanghai Cooperation Organization.

In July 2001, Russia and China signed the Treaty of Good-Neighborliness and Friendly Cooperation.³⁹ The SCO also extended support to the 1972 Anti-Ballistic Missile (ABM) Treaty, opposed the U.S. National Missile Defense (NMD) program in June 2001, and declared Central Asia a Nuclear Free Zone. Members also indicated their wish to start a dialogue with the Association of South East Asian Nations (ASEAN) regional forum. The main output of this summit was the document entitled The Shanghai Convention on fighting Terrorism, Separatism and Religious Extremism,⁴⁰ and in June 2002 the SCO signed the Agreement on Regional Anti-Terrorism Structure (RATS). This is a significant agreement because it called for a clear-cut legal framework as well as practical interactions in the struggle against terrorism, separatism, and extremism.⁴¹ The May 2003 SCO summit in Moscow approved the establishment of the SCO Secretariat in Beijing and transfer of the Regional Anti-Terrorism Structure (RATS) from Bishkek to Tashkent. The SCO also conducted its first joint exercise during August 7-12, 2003. The SCO held a follow-up economic cooperation and integration ministerial meeting in Beijing after the session in Moscow in 2003. On that occasion, the Prime Ministers settled on a budget for the organization's secretariat and the Regional Anti-Terrorism Structure (RATS) in Tashkent. The officials also finalized six additional documents on the SCO's institutionalization solidifying multilateral economic and trade cooperation within the organization.⁴²

The June 2004 meeting in Tashkent further concretized the SCO's framework, and Mongolia was also admitted as an SCO observer in the course of the summit. Russia also put forth an initiative to create an SCO-Afghanistan contact group, both to revive the Afghan economy and strive to maintain security and stability in the region. In relation to this, the SCO members signed an agreement outlining cooperation in the fight

³⁹ Treaty of Good-Neighborliness and Friendly Cooperation Between the People's Republic of China and the Russian Federation, <www.fmprc.gov.cn/eng/wjdt/2649/t15771.htm> (March 15 2003)

⁴⁰ "Shanghai Cooperation Organization Must Not Punish Peaceful Dissent," *Human Rights Watch*, June 14 2006, <<http://hrw.org/english/docs/2006/06/14/eca13545.htm>> (June 26 2005)

⁴¹ Official Website of SCO Summit Website, Brief History of SCO Summits, <http://english.scosummit2006.org/en_bjzl/2006-04/21/content_156.htm> (June 20 2006).

⁴² *Ibid.*

against drug trafficking while Russian President Vladimir Putin emphasized the SCO's importance in creating anti-drug security belts around Afghanistan.⁴³

The summit meeting of the SCO held in Astana in Kazakhstan during July 5-6, 2005 focused on economics and proposed to establish a comprehensive regional development fund and a Business Council. Documents on cooperation with ASEAN and the CIS were drafted and the SCO received observer status at the UN General Assembly. An important outcome of the 2005 SCO summit was a call to the U.S. to set a firm deadline for the withdrawal of U.S. and NATO armed forces present on the territory of SCO member-countries as part of the U.S.-led "anti-terrorist coalition." The U.S., on its part, has tried to deflect this call by claiming that its presence is governed by bilateral agreements with Uzbekistan and Kyrgyzstan. It is pertinent to note that Uzbek officials gave notice to Washington DC on July 31, 2005 to wind down the Karshi-Khanabad (K-2) air base on the Uzbek-Afghan border within 6 months. On November 21, 2005 the U.S.' military flew its last plane out from K-2.⁴⁴

This clearly demonstrated that Russia, China and the Central Asian Republics together would like to be in charge of regional security within the framework of the SCO. Some analysts believe that Uzbek President Islam Karimov was behind the general push for the anti-U.S. declaration in response to U.S. criticism of Tashkent's refusal to permit an international investigation into the events in Andijon during May 12-14, 2005.⁴⁵ SCO members have also appreciated Karimov's handling of the Andijon unrest where Moscow and Beijing have backed Tashkent during the latest downturn in U.S. -Uzbek relations.

At the SCO summit in Shanghai on June 15, 2006, 10 agreements were signed which included: "An agreement on the procedure of organising and holding joint anti-terrorism actions in the territories of SCO member Republics, an agreement on identifying and severing infiltrating channels of people engaged in terrorism, separatism and extremism in the territories of SCO member Republics, an intergovernmental educational cooperation agreement of SCO member Republics, a resolution of the SCO Business Council, and an action plan of SCO Inter-bank

⁴³ *Ibid.*

⁴⁴ Craig Murray, "Uzbekistan switching its gaze to Russia,"

<www.craigmurray.co.uk/archives/2005/11/uzbekistan_swit.html> (December 15, 2005).

⁴⁵ E. Jefferson Turner, "What is Driving India's and Pakistan's Interest in joining the Shanghai Cooperation Organisation?",

<www.ccc.nps.navy.mil/si/2005/Aug/turnerAug05.asp> (December 18 2005).

Association member banks on supporting regional economic cooperation.”⁴⁶

On the sidelines of the summit, business transactions worth US\$2 billion were agreed upon. Furthermore, the summit consolidated the security dimension, and the Declaration adopted at the summit strongly emphasized this. It stated, “what specific means to be adopted to safeguard security of the region is the right and responsibility of countries in the region.... The SCO will make a constructive contribution to the establishment of new global security architecture”. The Declaration also unambiguously stated that diversity of cultures and different models of development must be respected and upheld, and that interference in the internal affairs of a country on the pretext of “Colour Revolutions” was unacceptable. This was reflected further in the Declaration as it was explicitly stated “Model of social development should not be exported”.

Thus the SCO is slowly but surely emerging as a significant regional grouping in Eurasia. What has enhanced the significance of SCO is the shift in international politics from Europe to Eurasia. The abundant natural resources of the Eurasian region and the potentials of Eurasia to act as a hub of transport corridors have tremendously added to the significance of the SCO.

On the basis of the enormous potentials that exist, the SCO will most likely succeed in expanding its economic agenda and promoting economic cooperation and integration among member countries apart from the fight against terrorism, separatism and religious extremism. China and the other SCO members are already working on 127 joint projects covering the areas of trade, investments, custom, finance, taxation, transportation, energy and other areas of mutual interest. The SCO Summit in June 2006 also demonstrated that Russia and China intend to protect their common interests in Central Asia, including containing the U.S. influence in the region, fighting terrorism and religious extremism, as well as controlling energy resources.

International Issues and the SCO

Following 9/11, the U.S.-led Operation Enduring Freedom swept the Taliban regime out of power in Afghanistan, while the International Security Assistance Force (ISAF) led by the North Atlantic Treaty Organisation (NATO) has been engaged in promoting stability and security in the country. This has had a positive impact on all the Central Asian Republics, especially on Uzbekistan and Tajikistan where heightened militant activities by religious extremists and terrorists have

⁴⁶ SCO Website: <www.sectsco.org/news_detail.asp?id=938&LanguageID=2> (June 17 2006).

posed security challenges. Nevertheless, the military presence of the West in Kyrgyzstan and Uzbekistan (till November 2005) has changed the geopolitical map of Central Asia. The U.S. has emerged as a powerful player in the region. Russia's assent to Kyrgyzstan and Uzbekistan granting military base facilities to the U.S. has played an important role, but the expectation was that such military presence would be limited in time and scope. In the process, U.S. involvement in Central Asia has actually deepened. Apart from the military base facilities at Ganci near Manas airport in Kyrgyzstan and Karshi-Khanabad (K-2) in Uzbekistan, others like Kazakhstan, Tajikistan and Turkmenistan have also offered support to Washington. Clearly, this shows the ineffectiveness of the SCO to act as a security provider for the region at the moment. There was unease and disquiet in many circles, especially within the Russian armed forces that a US military presence would not be short-term, and suspicions were raised that it had a hidden agenda of controlling the energy resources of Central Asia and reducing Russian influence in the region. Such a perception is natural against the background of NATO's eastward expansion.

The U.S. has emerged as a powerful player in the region. Earlier, Russia was the chief guarantor of stability and security in Central Asia, but with religious extremism and terrorism acquiring global dimensions and the emergence of Afghanistan as the epicenter of extremism and terrorism, a global effort to fight this challenge became inevitable. Such an effort needed coordination and cooperation of all the states of the region and beyond. Russia and China extended full support and cooperation to Operation Enduring Freedom. Since Russia was facing challenges in Chechnya, Russia's support was understandable. Similarly, China has been facing the Uyghurs "Islamic resurgence" in Xinjiang. However, both Moscow and Beijing view a long-term presence of US forces in Central Asia as detrimental to their interests.

Russia and China are the two major powers within the SCO. Since the settlement of their border disputes, they have forged a close strategic partnership and there is a compatibility of views on international security. The Treaty of Neighborliness, Friendship and Cooperation of 2001 symbolizes the close and cordial relations between Russia and China and this compatibility of views is a positive factor in the SCO. However, differences emerging between Russia and China cannot be discounted in the future, where Central Asia may be an area where interests conflict. Russia has regained some of its lost influence in Central Asia whereas China has been focusing on economic cooperation and development. In the Chinese view development could also act as a tool for regional cooperation. This could ensure stability of the Central Asian region – the essence of Shanghai spirit. The possible scenario of Russia-China relations deteriorating to a conflictual level over Central Asia is however

remote at present. Nevertheless, any sign of differences among the two powers would have an impact on the workings of the SCO and Central Asia. Presently, such a turn of events look distant and the Sino-Russian partnership will likely continue in the near future. Both are powerful countries and will not allow strains and differences to affect their relationship.

The Foreign Policies of the Central Asian Republics

The foreign policy priorities of the Central Asian Republics have been one of multiple alignments or “an open-door policy.” After the collapse of the Soviet Union substantial federal subsidies that sustained the economies of the Republics dried up. Consequently, the Central Asian Republics opened their doors to external aid and borrowed in all the important sectors of the economy and social sectors at large. The Central Asian Republics are landlocked and three of them have a common border with China. These geopolitical compulsions would imply a policy of engagement and friendship with China. According to the Chinese scholar, Zhaunghzi: “SCO members share a common border. It is unimaginable for Central Asian countries to develop their economies and maintain domestic stability without the support from their neighbours.”⁴⁷

The Eurasian Economic Community (EEC) was established in 2001 by Russia, Belarus, Kazakhstan, the Kyrgyz Republic and Tajikistan to promote regional economic cooperation and integration. In the late 1990s, Uzbekistan distanced itself from the Russian-dominated regional economic grouping but the Andijon events changed the foreign policy orientation of Tashkent. Besides joining the EEC in January 2006, Uzbekistan also resumed its membership in the Collective Security Treaty Organisation (CSTO) from which it withdrew in 1999.⁴⁸

Still, the Central Asian Republics' initiatives to promote regional cooperation have so far been very unsuccessful. Neither the Central Asian Economic Community (CAEC), the Central Asian Cooperation Organisation (CACO) nor the Central Asian Economic Union (CAEU) have achieved any major results. On the other hand, it looks as if the SCO is more likely to succeed in promoting regional economic cooperation and integration.

However, some Central Asian analysts and diplomats fear a “creeping Chinese expansion” in the region especially in Kazakhstan, Kyrgyzstan and Uzbekistan. Murat Auezov, a former Kazakh Ambassador to China says: “It is a great neighbor for us, and we can benefit from it. But we

⁴⁷ S. Zhaunghzi, “New and Old Regionalism: The SCO and Sino-Central Asian Relations,” *The Review of International Affairs* 3, 4 (2004): 606.

⁴⁸ “Uzbekistan Lifts Moratorium on attending CSTO Meeting,” *Uzreport* <www.uzreport.com> (June 30 2006).

need to be prepared. I believe the best means to preparedness is a conscious consolidation and solidarity of the Central Asian Republics and peoples. We, neighbours, have certain [bilateral] problems – for example, border and water issues. But we should be able to stand together. We will maintain our sovereignty and freedom if we're able to create a well-functioning Central Asian brotherhood."⁴⁹ Prof Khaydarov, Former Deputy Foreign Minister of Uzbekistan, expressed the same views.⁵⁰ Auezov has voiced concerns over China's plans to extract water from the Ili and Irtysh rivers for Urumchi oil field development in Xinjiang Region. This is an extremely important question for Astana as water has become a strategic issue in the Central Asian region. Both the rivers rise in China; the Ili passes through Kazakhstan before terminating in Lake Balkhash and the Irtysh travels through Kazakhstan before joining up with the Russian Ob river.

Implications for India

The close and friendly relations between India and the Central Asian Republics have deep historical roots. India's first Prime Minister, Jawaharlal Nehru, visited these republics in 1955 and 1961 when they were part of the Soviet Union. As the Soviet Union disintegrated in 1991 and five independent and sovereign states emerged, this led to a strengthening and expansion of politico-economic-cultural ties between New Delhi and the Central Asian Republics. The political dialogue has since been regular and mutually beneficial. High-level exchanges have indeed set the tempo to chart out the scope and direction of cooperation, and have also laid the foundation for understanding each other's interests and core concerns. India and the Central Asian Republics all subscribe to common principles of inter-state conduct, peaceful settlement of differences, rejection of extremism in all forms, as well as the principle of non-interference in the internal affairs of other countries. The cooperation between India and the Central Asian Republics spans many areas, including economic and commercial collaboration, cultural, education and technical training in diverse disciplines, information technology, science and technology, agriculture and civil aviation, to name a few.

Central Asian entrepreneurs can make use of the considerable experience of Indian industry in areas such as textiles (both cotton and silk), pharmaceuticals and medical equipment, information technology and processing of agricultural products. Indian businessmen have already shown interest in making investments in Central Asia in some of these areas. For example, the Jawaharlal Nehru Information Technology

⁴⁹ Interview with Murat Auezov in Almaty, Kazakhstan June 6, 2006.

⁵⁰ Online (through e-mail) interview with Prof Khaydarov June 16, 2006.

Centre opened in Tashkent in April 2006 and Bedil India-Tajikistan Centre for Information Technology in Dushanbe launched on July 18, 2006. These are good signs of India's enhanced engagement in the ongoing economic and educational processes in both Uzbekistan and Tajikistan respectively. Yet India's bilateral trade with the Central Asian Republics has not reached its full potential. China's bilateral trade with these republics, in contrast, is increasing progressively. This highlights the importance that the Inter-governmental Commissions on Trade, Economic, Scientific and Technological Cooperation established between India and the Central Asian Republics increase their efforts to enhance India's economic engagement in the region.

It is still not too late to further explore these ties and potentials, and some recent events point to the fact that more efforts are underway. For example, India has recently signed agreements with Tajikistan (August 7, 2006) and Uzbekistan (April 26, 2006) in the fields of energy, providing exploration acreages to Indian companies without bidding, in return for an equal share in revenue from any discovery. The significance of these agreements arises from the fact that Uzbekistan is estimated to have 594 million barrels of proven oil reserves and an estimated 65-70 trillion cubic feet of natural gas reserves, making Uzbekistan the second largest natural gas producer in the Commonwealth of Independent States (CIS) after Russia.

These agreements also mark a change in India's influence in Central Asia. India's efforts to secure a niche for itself in Central Asian hydrocarbons have so far been unsuccessful. New Delhi had earlier tried to secure a share in the Kurmangazy field of Kazakhstan, but lost it to China. The new agreements mark a breakthrough and will help ONGC Videsh and the Gas Authority of India Limited to put their plans of investment in Uzbekistan and Central Asia on a fast track.

An agreement (signed on April 26, 2006) to establish an Uzbekistan-India Entrepreneurship Development Centre in Tashkent is also a step forward in increasing economic ties between New Delhi and Tashkent. However, India needs to ensure that these agreements are implemented efficiently and effectively. Information technology, hydrocarbons, the North-South transport corridor, deepening of bilateral cooperation in the areas of small and medium scale business and tourism appear to be some areas with high potential for success in India and the Central Asian Republics' economic cooperation.

Increasing politico-strategic-economic cooperation between the Central Asian Republics and China has enormous implications for India. New Delhi considers Central Asia as its "extended neighborhood" with a

high importance given to its geopolitical and geo-economic interests.⁵¹ Commercial and economic ties between Central Asian Republics and India hold immense potential, and Central Asian oil and gas reserves provide an attractive energy diversification option for India. The Central Asian Republics could be an attractive alternate source for energy materials from over-reliance on West Asian sources. Energy security is paramount to sustain India's growth and rapid development, and the Central Asian Republics could provide India with a modicum of energy security. The Central Asian region also forms a critical component in India's security calculus, both for establishing peace and stability in Afghanistan and countering Pakistan's strategy in creating centrifugal forces in Central Asia.

China's economic and security engagement with Central Asian Republics would change the geopolitical and geo-economic landscape lying north of India, and it is high time that India factors China into its Central Asia policy. As such, the current politico-economic scenario in Central Asia presents both challenges and opportunities for India.

Given the geographical inaccessibility, India could focus on having Production Sharing Agreements (PSAs) both in hydrocarbon and hydroelectricity sectors with the Central Asian Republics. The Khatlun region in the south of Tajikistan is said to still have large unexplored deposits of gas, and Indo-Tajik joint initiatives could help in exploiting the vast opportunities that exist in the region. Russia and Iran are already cooperating with Tajikistan in building and rehabilitating hydropower plants (Sangtuda I & II and Rogun) at Bakhsh and Piyanj rivers. Indian engagement in rehabilitating Tajikistan's hydroelectricity sector could be one good option in expanding and strengthening cooperation in the energy sector.

India needs to play a pro-active role in the prevailing geo-political situation in Central Asia by engaging in economic cooperation in a more sustained and coherent manner. Access to the oil and gas sectors and commercial exports market of Central Asia makes sense for India's rapidly growing economy. India will have to take imaginative economic initiatives towards the hydrocarbon-rich countries of Central Asia. Its enormous engineering expertise in downstream activities has to be effectively utilised so that Central Asian Republics acquire the capability to be exporters of high-end products. For many ongoing projects in Central Asia, European companies use India as the manpower base.

Indian medium and large-sized companies do have the capability to execute large engineering projects. But they seek to reduce their risks by

⁵¹ Yashwant Sinha, "India and Central Asia in the Emerging Security Environment", in K Santhanam and Ramakant Dwivedi, eds., *India and Central Asia: Advancing the Common Interest* (New Delhi: IDSA & Anamaya Publishers, 2004), 2-9.

being sub-contractors to MNCs. This situation must change based on agreements between India and the Central Asian Republics. In terms of Indian engineering companies getting engaged in Central Asia two aspects are important: a) opportunities in small and medium enterprises where Indian companies can contribute to the industrial development of Central Asia and b) local laws/regulations in the Central Asian Republics which protect the interest of investors from India.

Other steps that need to be taken to facilitate the expansion and strengthening of economic cooperation between New Delhi and Central Asian Republics include the re-opening of a branch of the State Bank of India or the Punjab National Bank in the capital cities of the Central Asian Republics for efficient and cost-effective commercial transactions. Secondly, there is a firm need to establish an office of the CII/FICCI/ASSOCHAM for liaison and facilitation functions.

India's emergence as a major player in the international arena, especially in information technology (IT), science and areas of high technology has opened up new opportunities for increased interaction with the Central Asian Republics. While India may not have direct access to Central Asia, Indian participation in the region in partnership with the U.S. is worth exploring. With the integration of the Central Asian Republics into the world economy, the Central Asian region could undergo a sea change.

Politico-military Developments in Central Asia and Emerging Strategic Equations

*Vinod Anand**

ABSTRACT

Peace and security in Central Asia are being impacted by intra-regional competition as well as the strategic interests of both extra-regional powers and regional neighbors. The geo-strategic salience of Central Asia is underscored by both the discovery of energy reserves and its role as a major hub for gas and oil pipelines and communication corridors. These corridors stretch in all directions connecting China, Russia, Europe, the Caucasus region, the Trans-Caspian region and the Indian Ocean. While U.S. influence in the region has already peaked, both Russia and China are cementing their political, military and economic relationship with Central Asian nations. Meanwhile, India has been endeavoring to improve its profile in Central Asia. This article will explore Central Asia's unique characteristics, the competition among great powers, and India's role in the region.

Keywords • Central Asia • energy • trade • geo-strategy • India

Central Asia has been associated with two defining events of the new international security and strategic landscape. The first was the dissolution of Soviet Union, and second were the September 11, 2001 terrorist attacks on the U.S. homeland. While the collapse of Soviet Union resolved many Cold War security issues, it also gave rise to many new security dilemmas. Erstwhile Soviet Socialist Republics of Central Asia became independent, embarking upon the painful process of nation and state building. Even after a decade-and-a-half this process is still not complete and is being impacted upon by the interests of many regional and international players in the Central Asian region.

The USSR's intervention in Afghanistan and the consequential failure (some refer to it as USSR's Vietnam) of its policy is said to have contributed in no insignificant manner to the demise of the Soviet Union. By the time the Soviet Union withdrew in early 1989, about 14,500¹ Soviet and an estimated one million Afghan lives had been lost

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¹ Some estimates put the toll of Soviet troops at 15,000 dead, for instance see Greg Mills and Martin Edmonds, "Soviet Lessons for NATO in Afghanistan," Royal United Service Institute for Defence and Security Studies news brief dated September 1, 2006 <<http://www.rusi.org/publication/newsbrief/ref:A451175972F6AB/>> (November 15 2006).

due to the USSR incursion in 1979. The U.S. and Pakistan's policies in Afghanistan gave rise to the emergence of the Taliban and other factions within the Mujahideen, who still remain active in Afghanistan. While these policies served the short term interests of both the U.S. and Pakistan, yet, as the events have proved, supporting the Taliban did not turn out to be beneficial in a number of ways for both countries. During the heyday of Taliban regime (1996-2001) Afghanistan had become the epicenter of terrorism with sanctuaries and training facilities provided to the likes of Al Qaeda, the Islamic Movement of Uzbekistan (IMU) and to holy warriors from Chechnya and Central Asian countries in addition to other assorted terrorist groups. Even China felt threatened by fundamentalist and extremist Muslim elements in Afghanistan because of its vulnerabilities in Xinjiang and its problems with Muslim Uighurs.

Therefore, when American forces launched Operation Enduring Freedom against the Taliban regime in October 2001 as a consequence of the September 11, 2001 terrorist attack, this was largely welcome by Russia, China, the Central Asian countries, India and others. Russia and China raised no objections to the U.S. being granted air bases and logistics facilities in Central Asia since it suited their short term strategic interests. Pakistan was forced to do a U-turn in its policies, however, and to the present time remains a reluctant partner in U.S. and Western nations' global war against terrorism, while its attitude to terrorism continues to remain ambiguous.

Central Asia – Unique Characteristics

The geo-strategic salience of Central Asia is underscored by two main factors. First, Central Asia has become important because of the discovery of energy reserves and second it has become a major hub for gas and oil pipelines and communication corridors emanating from it in all directions connecting China, Russia, Europe, the Caucasus region, the Trans-Caspian region and the Indian Ocean. Furthermore, whether it was Czarist Russia or the Soviet Union or even the present Central Asian regimes, there has always been a strategic ambition to open routes towards the warm waters of the Indian Ocean. Thus Afghanistan, which provides a land bridge between Central Asia, Iran and South Asia, becomes very important. Central Asia and South Asia are intimately connected not only geographically but also strategically. The Central Asian republics of Turkmenistan, Uzbekistan and Tajikistan have borders with Afghanistan, Iran lies to its west and Pakistan on the east and south. Therefore, the geo-strategic significance of Afghanistan is enhanced even though it may not be an oil or gas rich country. With the control of Afghanistan comes the control of the land routes between the Indian subcontinent and resource-rich Central Asia, as well as of a

potential corridor to Iran and the Middle East. Thus stability and peace in Afghanistan and Central Asia offers tremendous potential for intra-regional trade and economic prosperity.

Central Asia has never been a monolithic area and is undergoing a turbulent transitional process with a diverse range of ethnicities and fragmented societies throughout the region. The social, economic and political issues are compounded by these societal divisions and lack of political maturity. Each country has its unique characteristics and strengths which are complimentary to each other and can be exploited to achieve a meaningful regional integration. But Central Asia is far from achieving this goal.

Uzbekistan occupies a unique position because of geo-strategic and geo-political factors. It is the only country which has borders with the other four states. It has the largest population of 25 million and is the hub of transit corridors in Central Asia. It has sizeable diasporas in neighboring countries which can be used as leverage. The next most important nation is Kazakhstan with the largest land area and with a GDP of US\$47.39 billion (est. 2005)² which is over 50 percent of Central Asia's combined GDP. It is expected to become the top oil producer in a decade. The other three nations in Central Asia, Turkmenistan, Kyrgyzstan and Tajikistan complement the geo-strategic importance of the region. Tajikistan and Kyrgyzstan control 90 percent of the water resources with tremendous possibilities for its exploitation, and Turkmenistan is rich in natural gas while its geo-strategic location on the Caspian Sea adds to the strategic significance of the area.

Declining U.S. Influence

Peace and security in the region are, however, being impacted upon by intra-regional competition as well as the strategic interests of both extra-regional powers and regional neighbors. The U.S. continues to be a major player in the region though its strategic influence in Central Asia (which was at its peak during October 2001 and thereafter when it was offered bases in Central Asia to fight the Taliban), went into a spiral after the U.S. started aggressively promoting western style democracies in Central Asia and in the former Soviet republics. The high point of these policies, with negative repercussions for the U.S., was reached when it responded to the Andijon violence of May 2005 in Uzbekistan by severely criticizing the Uzbek government. In retaliation, the U.S. was asked to vacate its base in Uzbekistan. This call was also echoed by the Shanghai Cooperation Organization (SCO) in July 2005 which demanded that the

² CIA, *The World Fact Book* 2006, see section on Kazakhstan's Economy <www.cia.gov/cia/publications/factbook/geos/kz.html> (November 30 2006).

U.S. vacate its bases in Uzbekistan and Kyrgyzstan.³ Tajikistan provides the U.S. military and NATO overflight rights and a small contingent of French troops is also based there for Operation Enduring Freedom.⁴ The so-called colored revolutions, like the Tulip revolution in Kyrgyzstan, though supported by the U.S. and the West with a view to have a pro-U.S. government have not met with much success⁵ (the same is the case with Orange Revolution in Ukraine where currently a pro-Moscow Prime Minister is in power). Kyrgyzstan also demanded the vacation of its air base by the U.S. but agreed to extend the lease with a multifold increase in the demanded lease amount.⁶ While the U.S. rebuked Uzbekistan and raised questions of human rights in light of Andijon incident, China welcomed President Islam Karimov during his visit to China in May 2005 and lauded his firm handling of the “riot.”

Of late, the U.S. seems to have learnt the virtues of being pragmatic and not being extremely assertive and aggressively nationalistic in its dealings with either the Central Asian Republics or with other countries of the world. For instance, it has been circumspect in condemning President Nursultan Nazarbayev of Kazakhstan on his less than democratic policies, due to the fear of losing perhaps the only potential friend in Central Asia and because of its rich energy and natural resources.⁷ At the end of September, 2006, Nazarbayev was received by President Bush in White House and there was hardly any reference to democracy and human rights; instead the focus was on Kazakh oil

³ For a detailed analysis of U.S. bases in Central Asia and interests of the SCO see Lionel Beehner, “Asia: U.S. Military Bases in Central Asia,” Council on Foreign Relations website <<http://www.cfr.org/publication/8440/asia.html#3>> (November 15 2006).

⁴ For instance see PINR report drafted by Adam Wolfe titled “The ‘Great Game’ Heats Up in Central Asia,” August 3 2005, <www.pinr.com/report.php?ac=view_report&report_id=339&language_id=1> (November 4 2006).

⁵ For instance see Ulugbek Djuraev, “America has lost Kyrgyzstan,” July 11 2005, Axis Global Challenges Research Website, <www.axisglobe.com/article.asp?article=229> (November 4 2006).

⁶ Eric Marquardt, Adam Wolfe, Yevgney Bendersky, “Rice Attempts to Secure U.S. Influence in Central Asia,” October 17 2005, <www.pinr.com/report.php?ac=view_report&report_id=382&language_id=1> (November 3 2006).

⁷ See Christian Science Monitor, “America’s Soft Power in Kazakhstan,” December 9 2005, President Nursultan Nazarbayev apparently polled 91 percent vote in flawed elections yet U.S. acted with ‘surprising softness’ in order to secure its interests. Text available at <www.csmonitor.com/2005/1209/p08s02-comv.html> (October 17 2006).

reserves.⁸ The goals of the U.S. are oriented towards building energy and transport corridors which avoid Russia and either go South or West.⁹

The U.S. policy in Central Asia also includes promotion of a Greater Central Asia concept which revolves around treating South and Central Asia as one unit.¹⁰ Besides deep cultural and historic ties and the war on terrorism, the countries of the region have many common concerns, such as finding outlets/sources for energy supplies, achieving prosperity through economic cooperation and moving towards enhanced security and stability. However, the primary goal of the U.S. remains weaning the Central Asian countries away from Russian influence. It is in this connection that U.S. Assistant Secretary of State for South and Central Asian Affairs Richard Boucher came up with the idea of developing a power grid from the underutilized energy resources in Central Asia (hydro-power potential of Tajikistan and Kyrgyzstan and power stations based on Uzbekistan gas) with connections to Afghanistan initially and in later phases to Pakistan and India.¹¹ But there are many impediments in the realization of such a power grid scheme because of the lack of stability and security in the region.

Furthermore, in spite of some recent reverses in Central Asian power games, the U.S. has not given up attempts to involve Central Asia with Euro-Atlantic institutions. It continues to stress their links with NATO, the European Union, and the Organization for Security and Cooperation in Europe.

In August 2006, Richard Boucher visited Tashkent, which could be taken as an indication of Washington's willingness to resume a dialogue with the Uzbek authorities despite the Andijon events of May 2005.¹² Boucher's visit was followed by then-Japanese Prime Minister Junichiro Koizumi's talks in Tashkent in late August. Koizumi stated that Japan could assist the Uzbek government in improving ties with the United States and the EU. Koizumi's trip to Tashkent coincided with a visit by

⁸ For an analysis of corruption and non-democratic practices etc. and as a curtain raiser to impending Kazakh President's visit see Peter Baker, "With Kazakh visit Bush priorities clash," *Washington Post*, August 29 2006, page A01.

⁹ For instance, the Baku-Tbilisi-Ceyhan crude oil pipeline and energy/electricity grid based on oil/gas and hydro-power which would be routed through Afghanistan to Pakistan and India.

¹⁰ For instance see brief on Richard A. Boucher, "South and Central Asian Affairs," *eJournal USA*, September 2006, at USINFO.STATE.GOV website <<http://usinfo.state.gov/journals/itps/0906/ijpe/sca.htm>> (October 7 2006).

¹¹ Alexander Lomanov, "An interview US State Undersecretary Richard Boucher on American Policy in Central Asia," *Ferghana.ru*, October 11 2006, <<http://enews.ferghana.ru/article.php?id=1631>> (November 3 2006).

¹² Vince Crawley, "Richard Boucher visits Uzbekistan, offers cooperation, criticism," August 11 2006, U.S. Department of State, <<http://usinfo.state.gov/xarchives/display.html?p=washfileenglish&y=2006&m=August&x=20060811161006MVyelwarC0.9370844>> (November 15 2006).

an EU delegation led by Finnish Foreign Ministry officials¹³. The visit could have been a response to signals from Tashkent that it was willing to try and restore relations with the European Union. In October 2006 Uzbek President Islam Karimov sacked the Andijon governor which may be an indication of Karimov's softening stance on the issue, but such responses are not yet sufficient to satisfy the U.S. and the West.¹⁴ Boucher also visited Tajikistan during the first week of October 2006 to appraise the situation there, especially as regards the forthcoming elections.¹⁵ All this indicates the U.S. intentions of continuing to play a major role in the strategic arena of Central Asia.

The Central Asian nations, which expected to gain economically from their pro-West policies after their freedom from Soviet yolk have not benefited substantially from their Western orientation over the years. On the other hand, an economically ascendant China with Russia also experiencing a certain economic resurgence due to its abundant oil and gas reserves along with its past political and economic linkages, are gaining ground in Central Asia. Russia has been at pains to regain its strategic space in an area which it considers as its backyard or "near abroad." Both China and Russia have been coordinating their efforts to increase their influence.¹⁶

Russia's Re-emergence

For the last year or so Russia has been recovering its influence in Central Asia because of several factors. In November 2005, Russia and Uzbekistan signed a security pact called the 'Treaty of Allied Relations'. This pact is tantamount to a military pact since it calls for, "military help to be rendered in case of aggression against one of the parties by a third state, it will be viewed as aggression against both the parties."¹⁷ It also includes the provision of the use of each other's military bases and installations.¹⁸ In addition, a wide range of commercial agreements between the two countries were signed. This reflects the growing

¹³ "Uzbekistan: Karimov Reappraises Andijon," *Radio Free Europe/Radio Liberty*, October 24 2006, <<http://www.rferl.org/reports/centralasia/2006/10/27-241006.asp>> (November 1 2006).

¹⁴ *Ibid.*

¹⁵ Meanwhile Imomali Rakhmonov had won a third term as president of Tajikistan with 76.4 per cent of the vote in an election that was boycotted by the opposition.

¹⁶ Adam Wolfe, "The 'Great Game' Heats Up in Central Asia".

¹⁷ Erich Marquardt, Yevgeny Bendersky, "Uzbekistan's New Foreign Policy Strategy," November 23 2005 <www.pinr.com/report.php?ac=view_report&report_id=404> (December 1 2006).

¹⁸ Contrast this with the situation in September 1996 when the Taliban seized power in Afghanistan and President Karimov opposed allowing Russian troops in his country despite the heightened threat posed by the Taliban.

disenchantment of Uzbekistan with U.S. policies.¹⁹ Uzbekistan was the first Central Asian nation to opt for a pro-western orientation and had joined the NATO sponsored Partnership for Peace Program (PFP) in mid-1994. In 1999, it had withdrawn from the Russian sponsored Collective Security Treaty Organization (CSTO) in order to distance itself from the bear hug of the Russians. After September 11, it offered bases to the U.S. for operations against the Taliban. Uzbekistan had also endorsed the U.S.-led coalition's military operations in Iraq, though it did not send any troops.

With Uzbekistan formally reinstated in the CSTO in August 2006, this security organization encompasses a vast region starting from the borders of NATO in the West to China in the East, prompting comparisons with the Cold War-era Warsaw Pact. Belarusian President Alexander Lukashenko, who took over the rotating chairmanship of the CSTO from Russia, stressed that the main goal of the defense pact was to ensure the member-states' security "in the Western direction."²⁰ In another development which has both political and military significance, the CSTO and the SCO have decided to conduct joint maneuvers named Peaceful Mission Rubezh-2007 in the summer of 2007.²¹ The exercise will be held in Russia's Volga-Urals region and will involve the ground and air units of all member countries. Perhaps this is a build-up on the tri-service joint and combined Sino-Russian Exercise Peace Mission-2005 conducted in August last year in China on land, air and sea southeast of the Shandong peninsula.²² The exercise was ostensibly designed for counter terrorist and counter-separatist missions (read Taiwan) but had obvious implications for Central Asia as it was observed by the different

¹⁹ Improvements in Russia-Uzbekistan relations were not necessarily a post-Andijon phenomena, the bilateral relations had started growing much earlier. See Roger McDermott, "Lavrov in Tashkent: Russia and Uzbekistan search for strategic partnership," *Eurasia Daily Monitor*, October 26 2005,

<http://jamestown.org/edm/article.php?article_id=2370393> (November 1 2006).

²⁰ See Vladimir Radyuhin, "Uzbekistan rejoins defence pact," *The Hindu*, June 26 2006 <www.hindu.com/2006/06/26/stories/2006062604491400.htm> (July 4 2006). Formal admission was approved in August 2006, see Mateo Fumagalli, "Uzbekistan Rejoins the CSTO: Are Russian-Uzbek Relations Headed for Mutual Entrapment," *Central Asia-Caucasus Analyst*, October 18 2006 <www.cacianalyst.org/issues/20061018Analyst.pdf> (November 1 2006).

²¹ Viktor Litovkin, "More war games: Collective Security Treaty Organization (CSTO) and Shanghai Cooperation Organization join hands," *Global Research*, December 13 2006, <www.globalresearch.ca/index.php?context=viewArticle&code=LIT20061105&articleId=3705> (December 13 2006). Also see MK Bhadrakumar, "Russia and China create their own orbit," *Asia Times*, November 11 2006, <www.atimes.com/atimes/Central_Asia/HK11Ag01.html> (November 15 2006).

²² For a detailed analysis of the strategic ramifications of Peace Mission 2005, see Brig. Vinod Anand and Brig. Arun Sahgal, "China and Russia, the New Shooting Stars," *Asia Times*, September 9 2005, <www.atimes.com/atimes/Central_Asia/GI09Ag01.html> (October 5 2006).

SCO defense ministers as well. The military exercises clearly signify the larger strategic objective of Russia and China joining together to define the world in multipolar terms based on a commonality of concerns vis-à-vis a unipolar world dominated by the United States.

In September 2006, Russia and Uzbekistan held joint military exercises with the central theme of combating terrorism, thus indicating willingness on the part of Russia to step in and help. Uzbekistan is also expected to benefit from its military agreements with Russia in terms of receiving armaments at friendship prices.²³ Further, Moscow's push for closer military ties with Uzbekistan has also been seen as an effort to safeguard Russian economic interests. Incidentally, on September 21, 2006 Russia's Gazprom, Uzbekneftegaz, and KazMunayGaz signed an agreement on gas supply and transit. Uzbekneftegaz is to supply 3.5 billion cubic meters a year to Southern Kazakhstan, while KazMunayGaz will supply an equal amount of gas to Gazprom in a swap deal. Gazprom has indicated interest in acquiring a 44 percent stake in the Uzbek pipeline monopoly Uzbektransgaz.²⁴ The deal was supposed to facilitate supplies of Turkmen gas to Russia via Uzbek pipelines.

But the biggest gain for Russia in the field of energy supply has been in Turkmenistan. In the first week of September 2006, Russia accepted Turkmenistan's demand to raise the price of gas sold to Russia from US\$65 per thousand cubic meters (mcm) to US\$100/mcm in order to retain its control over Turkmen gas supplies. Turkmen gas remains central to Moscow's energy strategy in Central Asia. It enables Russia to control gas supplies to energy deficient Western Europe through Russian pipeline grids. Furthermore, with increased prices Russia has gained control over the entire exportable surplus for the period up to 2009.²⁵ And there are also indications that Russia may get access to untapped the Yoloton gas field. Thus the Turkmenistan-Russian partnership is likely to endure beyond 2009. Turkmenistan has also assured Russia that it would not participate in a trans-Caspian gas-pipeline project, to the disappointment of the United States. Even Kazakhstan has conveyed to Washington that it has difficulties with a trans-Caspian gas pipeline project. Kazakh oil largely flows through Russia via a Caspian pipeline to the Black Sea port of Novorossiysk. Kazakhstan has requested Russia to double the capacity of the pipeline to 67 million tons per year. Meanwhile the U.S. has been pressuring Kazakhstan to use the BTC pipeline in

²³ Sergei Blagov, "Russia seeks closer military links with Uzbekistan", *Eurasian Daily Monitor*, September 2006, <www.jamestown.org/edm/article.php?article_id=2371478> (November 1 2006).

²⁴ *Ibid.*

²⁵ See MK Bhadrakumar, "Russia sets the pace in energy race," *Asia Times*, September 23 2006, <www.atimes.com/atimes/Central_Asia/HI23Ag02.html> (October 4 2006).

preference over the Caspian pipeline²⁶ in order to strengthen its influence in Central Asia.

China's Ascending Trajectory

China has improved its footprint in Central Asia largely through trade, energy deals, building up of infrastructure in Western China and linking it up with Central Asia and through the gradual enlargement of the scope and purpose of the SCO, especially in the security arena .

China is looking at Central Asia's energy reserves to fuel its growth. China has built a 988 kilometers long pipeline from Kazakhstan (Atasu) to Xinjiang designed to carry 10 million tons of oil annually. It was also able to strike a deal on PetroKazakhstan, granting it access to vast reserves of Kazakh oil.²⁷ Plans are also afoot to connect this line to Tengiz on the Caspian coast to receive more supplies. In October 2006 China negotiated to acquire another oil field in Kazakhstan.²⁸ Earlier, in April 2006, China signed a deal with Turkmenistan for supplies of 30 billion cubic meters of gas for a 30 year period from 2009 onwards.²⁹ This deal prompted Russia to conclude its gas deal with Turkmenistan in September 2006. Chinese activities in the energy sector in Kazakhstan, Turkmenistan and Uzbekistan have begun to threaten Gazprom's domination in Central Asia. The evolving Chinese-Kazakh pipeline structure will eventually be linked with Iran through the Caspian Sea (386 km long). China has already signed several agreements in the energy area with Iran. Therefore China would use Central Asia's pipeline grid to reduce its dependence on energy imports through long sea lines of communication, with all of the security risks that are associated with it. Also it would promote China's policy of developing its Western region.

China is also in the process of exploiting the rich hydro power potential of Kyrgyzstan and Tajikistan. Chinese farmers are taking long term leases on farmland and China also controls the headwaters of two main rivers that supply water to Kazakhstan. In addition, China has embarked on anti-terrorist border training programs with its Central Asian neighbors to enhance its security. China is putting money on the table and thus is making major inroads into Central Asia's economy, with Chinese goods flooding the markets in the region. China's influence in Central Asian Muslim nations also helps it in addressing its security concerns regarding separatist Muslim movements in Xinjiang.

²⁶ *Ibid.*

²⁷ F William Engdahl, "China lays down gauntlet in energy war," *Asia Times*, December 21 2005, <www.atimes.com/atimes/China/GL21Ad01.html> (April 3 2006).

²⁸ "CITIC Group to buy Kazakhstan oil assets," *China Daily*, October 26 2006, <www.chinadaily.com.cn/china/2006-10/26/content_717784.htm> (November 1 2006).

²⁹ See MK Bhadrakumar, "Russia sets the pace in energy race".

Furthermore, Russia and China also have the advantage of being geographical neighbors of Central Asia as opposed to the U.S. or European countries.

Central Asian Politics and Internal Dynamics

Central Asian countries are exploiting the competition among the major players for oil, gas and resources to their advantage by getting the best value for their resources. This competition also provides them with strategic space for maneuver between Russia, China and the United States. For instance, Kazakhstan still maintains a small contingent of military engineers for de-mining and water purification duties in support of the coalition forces in Iraq. In fact, one Kazakh Battalion soldier has died in Iraq. Kazakhstan's peace mission in Iraq enables Kazakhstan to seek financial and technical aid to equip its forces with modern weapons. Kazakhstan has also been involved in the Caspian Guard, a U.S. sponsored security initiative with Azerbaijan which aims at enhancing Caspian security.³⁰ Its aim is to promote joint and coordinated Kazakh-Azeri security plans.

Other Kazakh diplomatic efforts suggest that Astana will pursue its security agenda with the aid of the Caspian Guard in order to enhance its own security capabilities, despite pressure from other players to adopt a more cautious approach in its relations with the United States. An economic memorandum was signed as a result of negotiations between President Nursultan Nazarbayev and U.S. Vice-President Richard Cheney in Astana in May, 2006 in which Kazakh business projects will be funded through 2010. Nazarbayev, therefore, has sufficient justification for committing himself to implementing security measures and reforms resulting from the Washington-Baku-Astana axis. Even though Kazakhstan is member of the CSTO and the SCO it retains its westward orientation through its membership in the OSCE, and harbors ambitions of becoming Chairman of the OSCE.³¹

Turkey, a NATO alliance partner, has provided Kazakhstan with free military and technical equipment and has also assisted in the training of around 500 Kazakh soldiers.³² Turkey is considered a key player in developing Kazakhstan's military capabilities complementing much of

³⁰ Roger McDermott, "Kazakhstan Parliament Ratifies Strategic Partnership with Azerbaijan," *Eurasia Daily Monitor*, July 5 2006, <http://jamestown.org/edm/article.php?article_id=2371246> (August 7 2006).

³¹ For instance see "Kazakhstan not going to Chair the OSCE in 2009," *Turkish Weekly*, December 5 2006 <www.turkishweekly.net/news.php?id=41475> (December 5 (December 5 2006)).

³² For instance see Roger McDermott, "Kazakhstan Parliament Ratifies Strategic Partnership with Azerbaijan".

the U.S. assistance to Kazakhstan with its own five-year cooperation plan.

Furthermore, there is an intra-regional competition and dissensions among Central Asian nations. While Uzbekistan has problems with the upper riparian states of Kyrgyzstan and Tajikistan regarding water, Kyrgyzstan is concerned with the uninterrupted supply of gas during the winter months. Kyrgyzstan and Uzbekistan's official interpretation of what constitutes terrorism remains divergent. Kyrgyzstan has become the hub for numerous political asylum seekers, refugees and members of banned religious groups.³³

The political and constitutional crisis in Kyrgyzstan is undermining the rule of President Bakiyev and Prime Minister Felix Kulov, who came to power last year in March 2005 as a result of the Tulip revolution. Bakiyev has been forced to partially relinquish his powers in an apparent replay of the tulip revolution because of a parliamentary resolution. Bakiyev had threatened to dissolve the parliament earlier and was expected to use troops to stem the opposition "For Reforms" movement. These events may have the effect of bringing Kyrgyzstan closer to Russia.³⁴ Activities of the U.S. and western NGOs have always been regarded with suspicion by Russia and ruling elites in Central Asia because of their promotion of aggressive democracy-related concepts.

After tough negotiations with the U.S. for increasing compensation in lieu of allowing the U.S. to maintain an air base at Manas, Kyrgyzstan extended the lease in middle of 2006. Nonetheless, Kyrgyzstan remains wary of U.S. interference in its internal affairs.³⁵ Tajikistan largely depends on Russia for its security requirements and remains cautious of forging military ties with the U.S. and the West. Rumsfeld visited Tajikistan in July 2006 in order to seek cooperation in the war on terrorism, especially in regards to Operation Enduring Freedom in Afghanistan, perhaps with the objective of gaining military bases.³⁶ It is also believed that China has been seeking bases in Central Asia.

Central Asian nations have also been making attempts at regional cooperation through the Central Asian Cooperation Organization

³³ Erica Marat, "Kyrgyz-Uzbek Security Relations: Similar Problems Different Policies," *Eurasia Daily Monitor*, August 1 2006,

<www.jamestown.org/edm/article.php?article_id=2371334> (August 17 2006).

³⁴ Pavel Felgenhauer, "Moscow hopes crisis will drive Bakiyev back into Russian camp," *Eurasia Daily Monitor*, November 8 2006

<www.jamestown.org/edm/article.php?article_id=2371621> (November 8 2006).

³⁵ See Roger McDermott, "Boucher visit to Bishkek reveals widening gap in U.S.- Kyrgyz relations," *Eurasia Daily Monitor*, August 15 2006,

<www.jamestown.org/edm/article.php?article_id=2371382> (August 16 2006).

³⁶ Roger McDermott, "Tajikistan cautious on ties with Western militaries," *Eurasia Daily Monitor*, July 11 2006 <www.jamestown.org/edm/article.php?article_id=2371262> (July 13 2006).

(CACO) which aimed at not only developing economic relations but also political cooperation among the member states.³⁷ The CACO's report card shows mixed results.

The region is also a theatre in the battle between fundamentalism and tolerance, extremism and moderation in Islam where the objective of radical elements is to destabilize the present secular governments. After the demise of the Taliban regime in Afghanistan there has been a relative lull in fundamentalist and extremist activity of Islamic Movement of Uzbekistan (IMU), which had been operating out of Ferghana Valley and areas adjacent to it. However, it has been reported that its elements are still holed up in areas bordering Pakistan and Afghanistan waiting for a resurgence. A speech given by IMU leader Tahir Yuldashev in September 2006 which was provided to the BBC, marked the fifth anniversary of the 9/11 terrorist attacks and called for renewed struggle. The message contained a new threat towards the leaders of Uzbekistan, Tajikistan, and Kyrgyzstan.³⁸ Predictably, Yuldashev claimed that the IMU remains strong and denied that the movement had given up or intended to do so. However, it is also believed that Central Asian regimes are using the threat of terrorism and fundamentalism to achieve political gains and consolidate their hold on the reigns of power by crushing the opposition. Harsh methods of suppressing opposition have also raised concerns about human rights violations.

India's Profile in Central Asia

India's cultural and civilization links, its liberal and secular fabric, its pluralistic society and other elements of India's soft power are India's strengths for improving its profile in Central Asia. India considers Central Asia as its strategic neighborhood and has been endeavoring to develop economic and trade relations which, to a large extent, are being hampered by the lack of a direct route to the region. India's motivations in this direction are propelled by the rapid growth of its economy with rising demand for energy imports. India therefore is looking at Central Asian oil to diversify its gas and oil imports. Furthermore, India prefers the stability of the current regimes and peaceful reform rather than the promotion of any aggressive democratic practices. Therefore, India is considered as a friendly partner by Central Asian states and a country

³⁷ For instance see Sergei Blagov, "Cementing Russia's Central Asian Clout", *Asia Times*, October 20 2004, <www.atimes.com/atimes/central_Asia/FJ20Ag01.html> (October 24 2006).

³⁸ Roger McDermott, "IMU Issues New Threat to Central Asian Leaders," *Central Asia South Caucasus.com*, September 18 2006, <http://www.centralasia-southcaucasus.com/index.php?option=com_content&task=view&id=58&Itemid=53> (September 19 2006).

which can play a balancing role in the fierce power play taking place in Central Asia.

India shares the goals of anti-terrorism, security and stability in Central Asia along with the curtailment of drug trafficking in the region. Therefore, India supports the objectives of the SCO which seek to ensure stability in the region and combat terrorism and extremist view points. India is keen to play a constructive and active role in the SCO. During the SCO meetings India has stressed including energy cooperation as a priority objective because the SCO is composed of important energy consumers and producers. India has been in favour of constructing gas pipelines from Turkmenistan through Afghanistan and Pakistan to India. The attendance of India's Petroleum and Natural Gas Minister, Mr. Murli Deora during the June 2006 SCO meeting in Beijing, signifies the importance which India attaches to its energy needs. The need to develop a North-South Transport corridor, which provides a shorter and more efficient trade route to Russia and landlocked Central Asia can not also be overemphasized.

India considers Iran as its gateway to Central Asia because of Pakistan's obtuse policies of denying it access to Afghanistan and consequently to Central Asia, which has deleterious effects on promoting intra-regional economic activity and development of trade. Thus, India has been developing a transport corridor from Chah Bahar in Iran to Afghanistan, with eventual linkages to Central Asia. However, the Taliban (with the backing of Pakistan) has carried out attacks on Indian engineers working on the project to discourage its construction.

India's size, booming economy, military and nuclear capabilities make it a not altogether insignificant player in Central Asia's power play, even though India has been referred to as a second tier player in the region. While addressing the Combined Commanders' Conference on October 18, 2006 Prime Minister Manmohan Singh observed: "We have traditionally conceived our security in extending circles of engagement. Today, whether it is West Asia, the Gulf, Central Asia or Indian Ocean region, there is increasing demand for our political, economic and defence engagement."³⁹ India has been developing relations with Central Asia at both the bilateral and multilateral level.

In April this year the Indian Prime Minister visited Uzbekistan and signed a number of agreements relating to education, IT, the oil and gas sector, light industry, agriculture, mineral resources and pharmaceuticals. The two sides also expressed satisfaction with the results of the second meeting of the Joint Working Group on Combating International

³⁹ "Extracts of PM's address at the Combined Commander's Conference," October 18 2006, New Delhi, <<http://pmindia.nic.in/speech/content.asp?id=432>> (November 1 2006).

Terrorism.⁴⁰ In July 2006, the Prime Minister also met with the President of Kazakhstan and emphasized that: “Kazakhstan is an important economic and political partner of India and the country is interested in extension of this bilateral cooperation.” India has joint working groups with Uzbekistan and Tajikistan as well, which have been meeting regularly. During a visit by Tajik President in August 2006, five documents were signed on energy, trade, security, science and technology and culture.⁴¹

India and Iran are both observers in the SCO and have historical, cultural and civilizational links with Central Asia. India and Iran, though admittedly second tier players in the region, share common goals regarding Central Asia. Furthermore, Afghanistan, though granted observer status in the SAARC, has also been attending the SCO’s meetings as a guest. For instance, in June 2006, Afghan President Karzai attended the SCO summit. He observed: “Afghanistan belongs to the region where also lies the SCO. Afghanistan has no other ways, and can’t be outside the region.”⁴² This underscores the geo-strategic relevance of Afghanistan as an important link between Central Asia, South Asia and Iran.

India and the Emerging Strategic Equation in Central Asia

In the emerging equation in Central Asia, India has been exploring the strategic space between the U.S., the European Union and NATO on the one side and Russia and China on the other. Russia is similarly attracted towards a Euro-centric orientation and while also aspiring to preserve its influence in former Soviet Republics where Western influence has made deep inroads. A segment of Russia’s intelligentsia is also of the view that a rivalry between the U.S. and Russia in Central Asia may create conditions for China to emerge as a clear winner in the Great Game. India also has a congruence of interests with the U.S. in Central Asia as well as globally. On the other hand, Russia, China and India have been having triangular meetings at the Foreign Minister level to enhance strategic cooperation. This grouping is also viewed by many as Russian and Chinese attempts to wean India away from American influence,

⁴⁰ See “Joint Statement by Republic of India and Republic of Uzbekistan,” April 26 2006, Tashkent, Uzbekistan available at Ministry of External Affairs, Government of India website Joint Declarations and Statements at <<http://meaindia.nic.in/jshome.htm>> (May 17 2006).

⁴¹ For instance see Sudha Ramachandran, “India’s foray into Central Asia,” *Asia Times*, August 12 2006 <http://www.atimes.com/atimes/South_Asia/HH12Df01.html> (August 17 2006).

⁴² “Afghan President arrives in Shanghai for SCO summit,” *Xinhua Agency*, June 14 2006 available at official website of SCO Summit at <http://english.scosummit2006.org/en_zxbb/2006-06/14/content_595.htm> (July 1 2006).

while another interpretation could be that this is a reflection of India's attempt to move towards its cherished goal of strategic autonomy.

There is also a view that while China-Russia and China-India vectors of the strategic triangle may be growing because of increasing economic engagement, it is the Indo-Russian vector of the triangle which is not gaining in strength. For instance, if defence trade figures are excluded, trade between India and Russia boils down to merely US\$2 billion,⁴³ which is same as with Sri Lanka. Comparing this figure with China-India trade which is estimated to be US\$20 billion this year and expected to grow to US\$40 billion by 2010,⁴⁴ one can easily perceive the huge differential. China is emerging as a major trade partner for both Russia and India. Economic ties have the effect of leading to political accommodation though this may not be true in all cases.

Besides economic ties the other component of mutual strategic attraction between any two nations is the factor of balance of power. On both the economic front and the strategic front there is a general belief that Russia and India are becoming less and less central to each others' interests. However, this may not be true in the long term. Doubts have been raised about the decline of Russia's economy and influence, as well as about India's ability to compete with China. But it is very much possible to evolve new strategic equations to deal with a rising and assertive China. For instance, Russia, India and Japan could tilt the Eurasian balance of power one way or the other in pursuit of multipolarity in Asia.

While the Russia, China and India strategic triangle may be a good way of promoting the virtues of multilateralism and polycentrism in contrast to the U.S. policies of "extreme unilateralism" and "assertive nationalism," each country will continue to value their bilateral relationship with the predominant power, the United States. They are unlikely to jeopardize their relationship with the U.S. for the sake of a strategic triangle. And China, with its growing economic and military clout is believed to be more inclined to follow path of unilateralism in Asia while advocating for multilateralism on the global level. China, in all its pronouncements and strategic behavior considers America as a worthy peer competitor to be emulated in the long term. It is more likely

⁴³ See "India-Russia Trade on the upswing," *The Hindustan Times*, December 14 2006. India-Russia trade in 2004-05 was US\$1.95 billion; it is estimated to reach US\$2.72 billion in 2005-06 and the trade turnover target for 2010 is US\$10 billion which is very modest compared to the \$40 billion projected for India-China trade by 2010.

⁴⁴ "India China Target US \$40 billion by '10," *Economic Times*, November 22 2001.

Talks between Prime Minister Manmohan Singh and Chinese president Hu Jintao largely centred on increasing trade and co-operation, leaving the contentious issues aside for the moment being. In a joint declaration released at the end of the talks, the two countries promised to diversify the trade basket, remove existing impediments, and optimally utilize the present and potential complementarities in their economies.

to use both Russia and India to achieve its strategic designs in Central Asia and elsewhere. It is therefore necessary that India and Russia make joint efforts to create more strategic space for themselves in Asia.

India considers Russia as a natural ally in Central Asia, and with an ascendant economy and competent military force it is bound play an active and important role in Central Asia. India can also be expected to play the role of balancer in the backdrop of rising Chinese influence. Russia has vast reserves of energy resources which India and Russia can exploit to mutual benefit. Oil consignments from the Sakhalin-1 oil field have already started flowing beginning in December 2006. India's O.N.G.C. Videsh Ltd., which holds a 20 percent share in Sakhalin-1, has proposed a joint partnership with Gazprom at Sakhalin-3 that would allow increased natural gas exports to India⁴⁵ and give Russian firms access to Indian projects, particularly the Paradip refinery in Orissa.

In addition to this India and Russia, in concert with other countries involved, need to spur the realization of a North-South Transport Corridor which would speed up the flow of goods, especially energy, from Central Asia to India via Iran.⁴⁶ China's defense and nuclear relations with Pakistan, on top of the U.S.' inability to influence Pakistan into dismantling terrorist infrastructures, leaves India with no choice but to work closely with Russia and Iran to add value to its Central Asian footprint. The Indo-U.S. nuclear deal will also allow Russia to expand its civil nuclear energy trade by developing nuclear plants.

Conclusion

Politico-military developments over the space of the last two years or so indicate the direction towards which the strategic winds are blowing. While U.S. influence has already peaked, both Russia and China are cementing their political, military and economic relationship with Central Asian nations. Meanwhile, India has been endeavouring to improve its profile in the region in order exploit its energy reserves and to establish a mutually beneficial security and economic relationship. Central Asian nations, while exploiting the competition between different players for their own perceived national interests have many conflicts among themselves and are still in the process of moving towards regional harmony. Political processes are yet to mature and the threat of terrorism remains real, especially because of the unstable situation in Afghanistan with the resurgence of the Taliban.

⁴⁵ Anupama Airy, "ONGC Videsh eyes stake in Sakhalin-3," *The Financial Express*, December 03 2006.

⁴⁶ "Making North-South Corridor More Attractive", www.setcorp.ru/exb/index.phtml?news_id=178&language=english&pagenum=1&Ex=t06 (December 1 2006).

There are complex strategic equations evolving at both the global and regional levels with each nation attempting to pursue its national objectives. There are calls on India to join one bandwagon or another in an arena where the end game is yet to be played out. Russia is already emerging as an influential and powerful actor in Central Asia. China is also fiercely pursuing its interests in the region, and has been gaining ground. However, Russia remains a partner of choice for India because of its defence industrial base, its oil and gas resources and above all its historical and friendly relations with India. Russia and India need to rediscover each other and a fresh impetus needs to be imparted to spur the relationship further.

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Many of the articles are solicited, but authors are encouraged to send their work directly to the Editor who will suggest changes and determine the relevance of the articles for each issue. Articles can also be sent to any of our senior advisors, but the Editor has full responsibility on accepting or refusing individual articles. Shorter articles will be responded to within a week, whereas the response to longer analytical pieces could take up to three weeks. Some articles will be dealt with by the editors immediately; most articles are also read by outside referees. Copyright of articles remains with *Central Asia-Caucasus Institute and Silk Road Studies Program*, unless another agreement has been reached.

Manuscript. Each submitted article should be sent to the Editor by e-mail attaching the word document. All correspondence will be conducted through e-mail during the process. The Editor reserves the right to edit the article to conform to the editorial policy and specifications of the CEF Quarterly and to reject the article should it not be acceptable to our editorial committee for publication.

Regular Articles: Articles should be in-depth and offer a long-term analysis of the particular problem. References are preferred to support your evidence according to the Chicago system. The articles should aim at 7000 words. Each article should be summarized in an abstract of not more than 150 words and include keywords.

Commentaries: Commentaries require a three to four sentence introduction to the article based on a news hook. Rather than a general, overarching analysis, the article must offer considered and careful “judgment” on the issue supported with concrete examples. Recommended length is 2000 words.

References. All authors should adhere to the Chicago reference system in their articles. These should appear in the form of footnotes. References to books and articles should be contained in the notes and not in a separate reference list. Provide translations of non-English language titles.

Articles from Journals: Phil Williams, “Transnational Criminal Organizations and International Security,” *Survival* 36, 1 (1994): 96.

Books: Patrick L. Clawson and Rensselaer W. Lee III, *The Andean Cocaine Industry* (New York: St. Martin’s Press, 1998)

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Subsequent references: a reference to a single source in the previous note should be replaced by ‘*Ibid.*’; in later notes by author’s surname, title and page number.

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