The role of the SCO countries in ensuring China’s energy security

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Abstract. The growing dynamics of relationships amongst Central Asia, Russia and China, and other SCO member states in economic and energy corporations is analyzed. Since the formation of the SCO, there have been tremendous changes in the dispensation of both political and economic forces in the region. The actual terms of the cooperation and the functions of the numerous SCO member states have changed, thus increasing the significance of some member countries while relegating others to minor leading roles. The Central Asian region plays a leading role in the CSO organization itself as a geographical platform for its activities and as one of the world’s leading countries in the global context. First, this course applies to Russia and China. However, China’s recent record-breaking economic growth has affected relations and cooperation with both the SCO countries and Russia over the past decades. The long history of interaction between Russia and countries of Central Asia and the current economic policy pursued by China in the region has a complex structure of intertwining with each other, making the situation of Russian-China’s relations paramount in the SCO. The booming economic growth of China leads to the transformation of the world economic space, where the other countries still occupy the leading positions. Foreign countries, fearing economic competition, announced a policy of containing China. The tension in the economic relations of the Central Asia countries and China is growing.

Keywords: China, Russia, SCO, economic cooperation, economy, Central Asia, energy

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Роль стран ШОС в обеспечении энергетической безопасности Китая

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Аннотация. Анализируется растущая динамика отношений между странами Центральной Азии, Россией и Китаем, а также другими государствами – членами ШОС в области экономического и энергетического сотрудничества. За прошедшие 20 лет с момента образования ШОС произошли огромные изменения как политических, так и экономических сил в регионе. Изменились фактические условия сотрудничества и функции многочисленных государств – членов ШОС, что повысило значимость одних стран-участниц и отодвинуло другие на второстепенные роли. Центрально-Азиатский регион играет ведущую роль и в ШОС (как географическая платформа их деятельности), и в глобальном контексте (как один из ведущих регионов мира). Эти изменения также касаются России и Китая. В последние десятилетия рекордный экономический рост Китая повлиял на отношения и сотрудничество со странами ШОС и Россией. Многолетняя история взаимодействия России и стран Центральной Азии и текущая экономическая политика, проводимая Китаем в регионе, имеют сложную, переплетающуюся структуру, что делает ситуацию российско-китайских отношений первостепенной в рамках ШОС. Экономический рост Китая приводит к трансформации мирового экономического пространства. Зарубежные страны, опасаясь экономической конкуренции, объявили политику сдерживания Китая. Напряженность в экономических отношениях стран Центральной Азии и Китая нарастает.

Ключевые слова: Китай, Россия, ШОС, экономическое сотрудничество, экономика, Средняя Азия, энергия

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Introduction

In the current conditions of aggravation of economic problems, multiplied by the factor of a global epidemiological disaster, the SCO countries’ economic and energy cooperation, led by Russia and China, is of particular interest. This article provides an answer to the main question implied by the mention of the SCO and the Central Asian region, whether Russia and China are currently competitors or remain reliable partners. The Shanghai Cooperation Organization (SCO) was established or founded in June 2001. Initially, the SCO included China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan, and Uzbekistan. In 2017, India and Pakistan of-
officially joined with Iran taking the status of observer and a potential candidate for membership. SCO countries totaled the area of more than half of the territory of Eurasia and more than a 34 million square kilometers, including almost the entire region of central and southern Asia. The population of SCO countries accounts for almost half of the world population resulting in more than 3.4 billion inhabitants in 2021 (Komissina, Kurtov, 2005). Most importantly, the indicators show that China and India play a significant role with their record population. In economic terms, today’s undisputed leader is China, the second economy in the world after the United States in terms of nominal GDP and the first in terms of PPP (Purchasing Power Parity).

Although the SCO is not a military bloc such as NATO or the organization of a security conference, the leading members of the SCO also make up the Shanghai Five, an agreement on cooperation in the military sphere and the reduction of the armed forces of member countries on adjacent borders. The agreement was signed in 1997 by Kazakhstan, Kyrgyzstan, China, Russia, and Tajikistan. The declared tasks of the SCO are to ensure stability and security in an ample space uniting the member states, joint counteraction against terrorism, separatism, extremism, and drug trafficking. A significant role is paid to developing cooperation in economics, energy, scientific work, and cultural exchange. Thus, the SCO occupies an intermediate position between the member states’ security, energy, economic, and military cooperation.

Methods

Methods that have been used in this research: Induction and deduction analysis, generalization, synthesis. In this article, the authors determined the features and trends of the participation of countries in Central Asia to ensure China’s energy security; perceive the present place and the role of China in the global or world energy market; discussed why the strengthening of China’s role in the SCO in the matter of economic and energy cooperation.

Literature review

This article is based on the studies of leading Russian and Western scientists about the development of the global economy and energy security and the problems of trade and economic relations and energy cooperation between Russia and China. Some of them are trying to identify China’s impact on a particular country (Mogilevskii, 2019). Others analyze Central Asia’s integrations: The Eurasian Economic Union and Silk Belt and Road Initiative (Svetlicinii, 2018; Aristova, 2018). Other papers cover China’s infrastructure objects for investment in CA countries (Goncharenko, 2018; Sarker et al., 2018).

Structural features of China’s modern Energy Security Strategy

Energy security has been a focal point of the Chinese Energy Security Strategy. In terms of global importation and consumption China remains one of the leaders ahead of many other countries. However, the context of energy security is directed to the security dealing with the supply of resources, particularly oil and gas. For China, energy security is relevant to its economic growth, and
the state understands it as a reliable and uninterrupted supply of energy resources capable of supporting economic activities.

Overall, energy security is classified into two distinguished types: “absolute” and “relative.”

Absolute energy security is most often called *monopoly security* which means large energy consumers, with the assistance of their own economic, political, and military power, work on a global scale to control and own a more significant part of both the oil and gas fields. By strengthening military cooperation and coalitions, they significantly dominate their participation amongst international energy organizations and provide reliable support or guarantee for energy supplies at stable prices. However, the United States is unarguably the only executor of such a strategy related to “absolute” energy security in our present times. However, “relative energy” security involves joint corporations to ensure a mutual or collective energy security strategy. On the contrary, energy consumers focused more on cooperation with energy producers using joint production, developing investment opportunities, energy infrastructure.

Different mechanisms of energy monitoring, stabilization of energy prices, management of transportation of energy resources, information support is created between energy consumers and others to ensure their energy security. China’s strategic choice, however, is seemingly clear that it focuses on relative energy security.

The Energy Security Strategy of China listed in their strategic priorities includes the following vital areas “economy,” “technological innovation,” “diversified cooperation.”

The Chinese prioritize the economy as their first security strategic focus. Also, the country considers saving resources and protecting the environment as a massive foundation of state policy. Nowadays, China focuses on creating an ecological system and culture, declaring that the primary measure of protecting ecological functions will be through resource economy. Most importantly, it is helpful to ensure the economic and intensive use of resources through the stimulation of radical transformation and the strengthening and management of the entire process of use to save, so that the intensity of consumption of energy resources such as water and land can be reduced significantly. In contrast, the coefficient and the efficiency of their use can be increased. The Chinese energy strategy seeks to promote revolutionary forms of production and consumption of energy resources through the control of the total volume of cost of production, intensified energy saving and cost reduction, support the development of energy savings, and cost reduction.

It is necessary to promote revolutionary forms of production and consumption of energy resources through the control of the total volume cost, intensification of energy-saving cost, supporting of the development of low energy saving and low carbon industries, the development of new and renewable energy sources, ensuring the state’s energy security.

The second priority is technological innovation. This priority looks into the scientific and technical innovation as a strategic focus in raising the height of productive social forces. The sovereignty of state power must be designed into the center of the entire process of the country’s development.

The formation of an innovative environment is considered as one of the goals of the Chinese republic in the future. This is not only about ideological innovation and management methods but, most notably, about technology innovation.
For the country’s leadership, scientific technology is considered the first productive focus and force, i.e., scientific technology is determined by the development of productive forces and contributes to the changes and transformation of society, economy, and culture. At the same time, the Chinese leadership has repeatedly stated that in other to continue its enrichment for the development of its potential, the country must promote scientific and technological processes in the energy sector, increase the innovation ability of the country and overcome the complex technical challenges in the development of the energy sector (Re-shetnikova, 2021). Today, China’s plan to develop the new type of energy and new energy technologies is an essential component in the state foreign policy cooperation with a partner and foreign countries.

The third priority is “diversified cooperation.” In the sector of international energy cooperation, there are three proposed models of interaction: horizontal, vertical, and complex models. In any case, the horizontal model of energy cooperation is a multilateral network or cooperation between different energy consumers. The vertical model of energy corporation is understood as the establishment of bilateral cooperation between energy producers and consumers. In other words, the model provides valuable and direct interaction between trends in the “upstream and downstream.” Following the model, energy consumers are dependent on the usage of energy diplomacy in other to establish bilateral partnerships with energy producers to maximize their security of energy supply.

Comprehensive energy cooperation is being established by combining both the horizontal and the vertical models. According to the horizontal model with energy, the countries adhering to these models are conducting energy dialogue with both energy consumers. Energy producers are forming a comprehensive energy cooperation model according to the vertical model.

The republic of China is not part of the international structure with either energy consumers or energy producers. Therefore, China’s international energy strategy is more of a vertical model.

**China in SCO economic cooperation**

In the crisis year of 2020, China’s gross domestic product grew by only 2.3%, while in 2019, this figure was 6% or more in previous years. There have been no such minimum rates since 1976. However, China has become the only significant economy globally to avoid a slowdown in the GDP growth rate due to the COVID-19 pandemic. Despite the drop in indicators at the beginning of the year, China managed to recover fully, showing a high recovery speed even against the backdrop of a fierce trade war against the United States and its political and economic pressure.¹ The Chinese economy accelerated in the fourth quarter, and in the first quarter, China's GDP fell by 6.8%, then it grew by 3.2% in the second quarter, and the third grew by 4.9 and 6.5% in the fourth.

In terms of world or global decline in production and the drastic decline in economic activities in the world, the Chinese economic growth was supermassive,

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particularly in the context of the US implementation of its Indo-Pacific Strategy, which implies opposition to China in several key areas included in prominent areas such as the economic and energy spheres.

The energy security problem today is becoming one of the most emerging and pressing issues in China’s economic development plans. The Trump Indo-Pacific Strategy put forwards in the United States worsens the atmosphere of China’s energy security and increases the risk for the transportation of energy resources by sea from the regions of the Middle East, Africa, and the Asian-Pacific regions.

The Chinese energy supply diversification is considered a logical strategic choice, so the emphasis on this issue is shifting to Eurasian cooperation. On China’s energy security, supplies of resources from Central Asia and Russia are beginning to come first and becoming an object of priority and strategic importance. Central Asia is a region rich in hydrocarbon resources, geographically close to the PRC. It is already evident that the Central Asian region has begun to play a significant role in the Chinese energy supply systems.

Despite a slight reduction in the rate of growth of the Chinese economy in current years, the country confidently retains its status as the world second-largest economy after the United States, and in any case, if calculated in terms of PPP, then it is eventually the first in the whole world.

Such colossal economic performance and Industrial Economic growth require much energy. However, there is still a growing energy consumption rate in China, an exceptionally high growth rate observed in the oil and gas sector. Sources from the British Petroleum Statistics show that the volume of oil consumption in China in 2019 amounted to 650 million tons, more than 5% in the previous years. The high rates of economic and industrial growth in China require many material resources. Today we can say that the provision of its energy resources in China is less than 80%, endangering the country’s energy security (Ruban, Grib, 2020).

Within the framework of the SCO interaction, the following main interrelated areas can be distinguished:

– energy policy;
– economic cooperation;
– regional security;
– humanitarian cooperation.

A large amount of work is being carried out in each area on the interaction between the SCO countries. The principles of work within the organization are based on each participant's equal and fair position, but the dynamic development requires an analysis of the current situation.

**Energy policy**

The Central Asia region, located in Eurasia, has the richest natural and energy resources. Throughout its history, Central Asia has been an arena of geopolitical struggle in the world. It is worth recalling the Great Game of Great Britain and the Russian Empire. Today, the role of Central Asia has increased many times due to increased competition for energy resources in the world. Here, we can discuss the struggle between world and regional powers, represented by Russia, China, the United States, Iran, and Turkey. China has recently begun to play a priority
role in this direction, pushing back the historical hegemon in this region. Russia, Kazakhstan, Turkmenistan, and Uzbekistan are highly rich in oil and gas resources; moreover, these reserves are sufficient for them not only to meet their own needs but also for largescale exports, which strengthens the economies of these republics. Table shows the structure of the distribution of energy resources in the countries of Central Asia.

<table>
<thead>
<tr>
<th>Energy resource</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
<th>Turkmenistan</th>
<th>Uzbekistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>50</td>
<td>5</td>
<td>1</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Natural gas</td>
<td>16</td>
<td>2</td>
<td>2</td>
<td>83</td>
<td>84</td>
</tr>
<tr>
<td>Coal</td>
<td>28</td>
<td>11</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Hydro resources</td>
<td>6</td>
<td>82</td>
<td>96</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>


Today, China bases its policy principles on the issuance of energy interacting with other countries in the Central Asian region base on the following. Firstly, China considers solid political ties as a vital force for reliable energy cooperation. The PRC was one of the first to recognize the sovereignty of the different countries of the Southern Asia region and establish diplomatic relations quickly (Belo-va, Egorycheva, 2020). This possibility of diplomatic ties made it very possible to develop a solid foundation and deepen multilateral energy cooperation.2

Secondly, the Chinese energy principle focuses on geographic proximity. Unarguably there is geographic proximity of central Asian energy resources to the world’s largest energy consumer “China.” The PRC borders with partner countries, allowing the reduction of transportation cost of delivery energy resources and minimizing the total and average costs for energy cooperation with countries of Central Asia.

Thirdly, China considers mutual complementarity in the development of energy cooperation between countries. The multi-vector nature of the energy supply is not only beneficial to the Chinese economy but at the same time to partner exporting countries. By striking such a deal, the Chinese avoids total dependence on hydrocarbon resource supplies from the Middle East and the Asian Pacific, increases their energy security, and the Central Asian countries, in turn, get the opportunity to pursue a more flexible and independent policy in the regional energy market, avoiding a monopsony situation. Diversification of energy cooperation has a highly positive impact on the economies of all SCO countries, allowing trade in energy resources within the framework of market relations, free competition, and developing multilateral energy partnerships.3 One of China’s largest energy partners in Central Asia is Kazakhstan. Energy cooperation between the two countries began in 1993, and for almost 30 years, both countries have streng-

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thened their continuous development in a positive direction, which consists in increasing the presence of Chinese capital in the oil and gas sector of the country.

One of the examples can be seen in the 2003 acquisition when the Chinese company CNPC acquired significant shares of the Aktobe Oil field in the amount of 85.6%. Also, in 2005, the Chinese company ONPC made another acquisition. The company acquired the Petro Kazakhstan while constructing the first transnational Oil pipeline, “Kazakhstan-China,” built-in 2006.\(^4\)

Since 2008, there has been a severe and systematic expansion of relation and branching of oil and gas pipeline across the Kazakhstan territory meant to rich oil field of Kazakhstan sector of the Caspian Sea with the Chinese pipeline systems. Also, with the financial support of China, projects in the field of gas production are being developed. In 2012, the China Development Bank signed a document to provide $ 1.8 billion to Kazakhstan to construct the Beineu – Shymkent trunk pipeline.

![Silk Road Economic Belt](https://neftegaz.ru/news/transport-and-storage/539234-pogazoprovodu-srednyaya-aziya-kitay-eksportirovano-304-6-mlrd-m3/)

The main slogan of the project is expressed as “One Belt – One Road,” which justifies the promotion of the interconnection between the regions of Asia, Europe, and Africa. The project also establishes ties amongst the adjacent seas of the region to continue strengthening the established partnership in trade and economic relations that may involve the expansion of trade and economic ties with China’s leading trading partners – The European Union (EU). This can be achieved through the diversification of different trade routes. For example, reducing the delivery period of goods by rail from Western China to the European Union takes only 11 days. However, there are options of laying a brand-new route within the standard framework of the Silk Road Project through the Northern Sea route of Russian water that is also being discussed (Figure).

The implementation of this project requires infrastructural development through the interconnection of countries, the implementation of unhindered trade within the project framework, and financial integration coupled with political coordination of all project participants on a multinational census.

Additionally, there should be mutual solutions to address the emergence of similar regional projects for the Central Asia-Eurasia Economic Union of Russia (EAEU) and the Silk Road Economic Belts (SREB) of China. This problem has become the most severe issue for Moscow and Beijing since the late 2000s.

For countries in the EAEU, the most attractive project will be the New Silk Road. This will eventually allow investment in Russia, Kazakhstan, and Belarus to improve their transport infrastructure, which can also be used to transport goods amongst some EAEU member states.

The planned transport corridor will be a high-speed railway line passing through Russia, Kazakhstan, Belarus, Poland, and Germany, connecting the People’s Republic of China to Western Europe. The project is considered very ambitious and requires investing huge financial investment costs and many different unresolved challenges.

For European Union countries the transportation of goods to China and other countries in the Asian Pacific through the Trans-Siberian and further through the eastern Russian ports costing twice as much as the delivery using through sea transportation. It is essential to consider the unsatisfactory states of transport infrastructure of the Russian Federation and Kazakhstan and other countries of the region and the differences in the railway Kalei between Russia and other Western European Countries.

To finance the Belt Road projects, two new financial institutions were established in China in 2014, namely, the Asian Infrastructure Investment Bank (AIIB) and the Silk Road fund. The fund was meant to provide investment and financial assistance that could promote relations and cooperation with the Silk Road Economic Belt and national and international companies and financial institutions.5

The initial capital was estimated to be $10 billion and was taken from such sources as the Export-Import Bank of China with 15% Chinese investment corporations, 15% China Development Bank 5%, and the State Administration of Foreign Exchange 65%.

China’s investment in Central Asian countries

The Silk Road project is implemented based on developing transport infrastructure in the countries where the route runs.

The second principle of access to the resources of partner countries is the import of raw materials and the export of Chinese goods. Moreover, the third principle is to create conditions for the mutual exchange of innovations, primarily with technically advanced countries for China, such as Russia and the countries of Western Europe. The volume of investments and trade between China and Central Asian countries has grown dramatically in recent years. The Chinese capital has firmly established itself in the region’s countries, overtaking Russia and the countries of the West. The share of Chinese firms in Kazakhstan is already over 25% in oil production.

In Turkmenistan, due to the previously mentioned “Gas War” in 2009, China squeezed out “Gazprom” as a buyer of natural gas, redistributing up to 61% of the export of raw materials to itself. The volume of Chinese capital in Kazakhstan, Uzbekistan, and Turkmenistan already exceeds Russian investments by 11 times and grows.6

Conclusion

Today, the relationship between Russia and China is based on the delineation of significant functions in Asia and the SCO. Both countries support each other because if China assumes the functions of an economic locomotive, then Moscow acts as a guarantor of security in the region. Specific financial resources also back China’s new Silk Road project. The Russian project is more in line with preserving historical position within the region and its image. Moscow, however, seeks to return the EAEU members states into one of the major centers of multipolar world order and create it as a connection between East Asia and Western Europe. To do this, it is necessary to accept harmony with China as a partner that respects Russia.

The Greater Eurasia concept is an attempt to expand the territorial restrictions of the EAEU. Greater Eurasia must embrace all significant players, from China to India to ASEAN. Russia cannot compete with the Chinese “check diplomacy.” In the 2010s, Russia gradually limited its presence in the energy sector. China is more interested in the practical benefits of regional cooperation, while Russia uses its projects to maintain its image as a strategic leader of Eurasia. In conclusion, we can say that cooperation between Russia and China in the region does not bear the character of a competitive struggle but is more a partnership interaction with an agreed distribution of roles in the SCO region to the extent of available resources. China in no way questions the political and military leading role of Russia, and at the same time, the factor of China’s economic power is recognized by all members of the organization.

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