



CENTRE FOR EUROPEAN REFORM

*policy brief*

# The EU should not ignore the Shanghai Co-operation Organisation

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- ★ The Shanghai Co-operation Organisation (SCO), which brings together China, Russia and four Central Asian states, is becoming an important regional club. It serves as a platform for counter-terrorism co-operation and encourages economic ties between its member-states.
- ★ The EU's new Central Asia strategy should make a case for stronger EU-SCO links. By working with the SCO, the EU could help stabilise Central Asia, improve its energy security and strengthen its efforts to fight terrorism and drug-trafficking.
- ★ However, one constraint on closer EU-SCO ties is that some European governments see the SCO as anti-western, and many criticise its members for serious human rights violations.

## Introduction

The German presidency of the European Union has made a priority of enhancing Europe's relations with Central Asia. It hopes that the June European Council will adopt the EU's first ever comprehensive strategy towards the region. Frank-Walter Steinmeier, the German foreign minister, said in December 2006 that Europe had three strategic interests in Central Asia: first, its proximity to an unstable region that includes Afghanistan, Pakistan and Iran; second, the region's struggle – so far successfully – to contain Islamic fundamentalism; and third, Central Asia's vast energy resources. He is right that these interests should lead the EU, until recently a marginal player in the region, to pay greater attention to it.

However, if the EU wants to enhance its role in the region, it should engage not only with Central Asian states themselves, but also with the regional organisations that share many of its concerns on security, stability and development. The key organisation in the region is the Shanghai Co-operation Organisation (SCO), which includes

Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Russia and China as full members, and Iran, India, Pakistan and Mongolia as observers. Following the recent change of regime in gas-rich Turkmenistan, there is speculation that it could abandon its extreme form of neutrality and join the SCO in the near future.

The SCO, though little known in Europe, has become a dynamic, influential and ambitious regional organisation, stretching across a large part of the Asian continent. In the five years of its existence, it has already become much more than a talking shop, spawning real results in areas such as security co-operation, common economic projects and the harmonisation of laws. In recent years, as western influence in Central Asia has declined, that of Russia and China has grown. This shift has made the SCO more important, as have several other factors:

- ★ Russia has distanced itself from both the EU and the US. Some Russian policy-makers favour a geostrategic shift towards closer relations with Asian countries.

- ★ As Chinese power grows, some communist party leaders see the SCO as a vehicle for allowing China to extend its influence in Central Asia, without causing undue alarm.
- ★ Both Russia and China view the SCO as a mechanism for dampening their inevitable rivalry. They also share the view that the SCO can help to prevent both 'colour revolutions' – leading to the introduction of western-style democracy – and the spread of Islamic fundamentalism.

Vladimir Putin enthused about the SCO in September 2006:

“We did not plan the SCO to be so prominent – it was established to address trivial matters such as border demarcation. But then it started to develop, and there is now a real demand [for a strong SCO], which is why others want to join. There is an objective need for centres of power and influence in the world, so we responded, but we had not planned it that way. The SCO has great prospects but will not become a politico-military bloc, it is an open type of organisation. We must take into account the complex balance of forces in Asia and we do not want to over-burden the SCO. So we'll be responsible in expanding the SCO. It is not against anyone but promotes the interests of its members.”

<sup>1</sup> *Remarks to the Valdai Club, September 2006.*

However, there are constraints on the SCO's development. For one thing, most of the Central Asian states are inherently weak. For another, the SCO lacks the kind of supranational institutions that have allowed the EU to achieve so much. Furthermore, neither China nor Russia is an instinctively multilateralist country, at ease with international organisations.

A more fundamental problem is that the SCO is beset with internal contradictions. One is rivalry between China and Russia. Russia may become uncomfortable with China's apparent leadership of the organisation. China favours an SCO with the emphasis on economics, while Russia prioritises security. That is why, for now, the SCO cannot evolve into a free-trade area or single market. But China and in the future India will keep pushing for such goals. SCO members also disagree over the degree to which the SCO should be anti-western. China and to some extent Russia want the SCO to counterbalance the West. Kazakhstan, Kyrgyzstan, Mongolia and India do not.

Given that the SCO has emerged as the most influential multilateral institution in Central Asia, the EU should be ready to work with it. So far, however, the EU has not developed a relationship with the SCO. In fact, it has no clear policy towards the

organisation. Yet the growing importance of the SCO offers a compelling rationale for a new EU approach, based on dialogue and engagement. Such a policy might help the EU better understand Russia's and China's key objectives in Central Asia, namely security, stability and development. A dialogue with the SCO would not prevent the EU from raising concerns over democracy and the rule of law.

Why is the SCO important to the EU? And why is the EU particularly well-placed for developing relations with this organisation? First, the SCO could play a major role in Central Asia's economic development. Europe has a clear interest in Central Asia becoming prosperous and secure. If the region develops the wrong way, Europe may face problems from terrorist networks based there, interrupted energy supplies or increasing flows of illegal migrants.

For the Central Asian states, the SCO represents a potentially useful tool for boosting economic growth. Landlocked Central Asia cannot gain access to ports and major international transport corridors without co-operating with big neighbours such as China, India, Iran and Russia. Other sources of economic assistance – such as the EU, the US, Japan or the Asian Development Bank – play an important but secondary role. If the SCO eventually manages to realise its ambitious economic integration agenda, including the creation of a free-trade zone and a set of rules for the free movement of goods, services and technologies, a strong EU-SCO relationship would bring the Europeans major trade and investment opportunities.

Second, because the SCO has competence on energy matters, it could become relevant for Europe's energy security. The membership includes two of the largest global energy producers outside OPEC, Russia and Kazakhstan, as well as two of the largest consumers, China and India. Europe will continue to depend on Russia for oil and gas imports and could in the future compete with China over Eurasian energy resources. So a dialogue between the SCO and the EU on energy security could provide a forum for their members to discuss issues such as the transparency of domestic energy sectors and the diversification of energy supply routes. The two bodies could work together to develop strategic projects involving energy transport to China and Europe.

Third, Russia and China are important partners for the EU. While the EU will of course attach more importance to bilateral partnerships with Russia and China, an SCO-EU dialogue could help to reinforce these bilateral relations – especially since Moscow and Beijing consider the SCO a foreign policy priority. The SCO has become a sign of both China's growing ambition as a global and regional power, and its caution over provoking anxiety and suspicion through unilateral action. For Beijing, the SCO is a vehicle for managing China's 'peaceful rise'. Russia views the SCO as a means for maintaining its role in post-Soviet Central Asia, and balancing the influence of China and

others. Neither China nor Russia views the EU as a challenge in Central Asia. Thus the EU and the SCO are not destined to become rivals in the region.

Fourth, the SCO aims to tackle security issues, many of which matter for the EU. The EU and the SCO share a common interest in co-operating to disrupt terrorist networks. Both want to stabilise Afghanistan (where several EU states have troops in the NATO-led mission). The SCO views Afghanistan as a crucial strategic challenge and has established a special working group on it, though the group has not yet achieved much. Conceivably, the SCO might one day play a role in putting pressure on Iran – one of its observer states – to abandon its nuclear ambitions. A strong EU-SCO dialogue might encourage the SCO to consider such pressure. Conversely, hostility between the EU and the SCO could encourage countries in the latter to deepen ties with gas-rich Iran, thereby reducing the effectiveness of any sanctions against it.

Therefore, the SCO matters for reasons of geostrategy, economics and security. However, so far the attitude towards the SCO among European policy-makers and analysts has been – as in the US – predominantly dismissive, negative or even hostile. The organisation has been portrayed as an anti-western alliance and criticised for opposing democratic reforms in Central Asia. Some Europeans saw the inclusion of the Iranian president in the June 2006 SCO summit as a sign that the organisation wanted its own policy vis-à-vis Iran, and they worried that this could undermine European and American diplomacy on the Iranian nuclear programme. The EU should overcome its suspicions and engage with the SCO. There are early signs that this process is under way – internal EU papers prepared for the Political and Security Committee of the Council of the European Union note the SCO's rising importance and argue for the EU to strengthen its relationship with the organisation.

### History and institutions

While the SCO itself has a rather short history, its un-institutionalised predecessor – the 'Shanghai Five' – dates back more than ten years. After the end of the Soviet Union, the Central Asian republics had to create their states practically from scratch – building institutions, fostering national identities and fixing geographic boundaries. The latter task was particularly challenging: they all – bar Turkmenistan – had to renegotiate their borders with China, since the Soviet Union and China had many outstanding border disputes. Kazakhstan, Kyrgyzstan and Tajikistan agreed with Russia and China to form the Shanghai Five as a confidence-building mechanism. Its first meeting took place in April 1996, in Shanghai.

The Shanghai Five proved effective: by 2001 all border disputes had been settled peacefully, while disarmament measures along borders had been agreed and implemented. In the meantime, the group's

members had begun to co-operate not only on economic matters but also on cross-border security challenges. These included Uighur and Islamist terrorism, organised crime, and threats emanating from war-torn Afghanistan.

In June 2001, the five took in Uzbekistan and became the Shanghai Co-operation Organisation. Then in 2004 the SCO admitted Mongolia as the first 'observer'. India, Pakistan and Iran became observers in 2005. However, the precise role of observers remains unclear. Full members work closely to prepare joint declarations at SCO summits, and send their representatives to SCO institutions. Observers seem only to attend summits. Nor is it clear what the criteria are for observers to become full members. India, Pakistan and Iran have all expressed a wish to become full members, but the existing members have failed to reach a consensus over enlargement.

The main governing body of the SCO is the Council of the Heads of State, which meets once a year. Summits of the Council rotate from one member to another (according to the Russian alphabetical order). The country hosting the summit also holds the annual rotating presidency. In 2007 Kyrgyzstan took over the presidency from China.

The institutions of the SCO also include regular meetings of the ministers of foreign affairs, defence, interior, economy, transport, emergency relief and culture. There are forums for the heads of border guards and the prosecutors-general. The council of national co-ordinators, consisting of senior foreign ministry officials, meets between summits and prepares agendas and documents for official meetings. The SCO's two official languages are Chinese and Russian.

The SCO's charter, adopted in 2002, defines the main purposes of the SCO as "strengthening mutual trust, good-neighbourliness and friendship among member states; developing effective co-operation in political affairs, economy, trade, science and technology, culture, education, energy, transport and environmental protection; working together to maintain regional peace, security and stability". The charter defines the SCO's basic principles to include "respect for each other's independence, sovereignty and territorial integrity; non-interference in each other's internal affairs; agreement not to use or threaten force; equality among all member-states; and the settlement of all matters through consultation". Although SCO membership is open only to regional states, its charter provides for co-operation with other states and international bodies – including potentially the EU – as partners.

In 2004, the SCO opened a secretariat in Beijing. The SCO's secretary-general and the permanent representatives of each member are based there. In January 2007, Bolat Nurgaliev from Kazakhstan took over as secretary-general for a two-year term. The secretariat co-ordinates the SCO's bodies and

supports its activities. Policy-making, however, remains firmly in the hands of member-states. Most decisions on policy are taken during meetings of national co-ordinators, or at summits.

### Security co-operation

After the secretariat, the SCO's most important institution is the Regional Anti-Terrorist Structure (RATS), which started to operate in 2004 from a base in Tashkent, Uzbekistan. Its work includes information exchanges, extradition and the co-ordination of operations, as well as the targeting of terrorist training camps and finance. Vyacheslav Kasymov, deputy head of Uzbekistan's security service, was appointed as the first director of RATS. His staff consists of 30 officials, coming from all the SCO members. The financing is shared among member-states with Russia and China providing 25 per cent each, Kazakhstan 21 per cent and the other members proportionately less.

Over the past two years, RATS has expanded its role. It is now working on the harmonisation of anti-terrorist legislation in the member-states, compiling common lists of terrorist organisations and key terrorists, and tracking the financing of terrorist bodies. In international forums such as the UN, the SCO tries to present a common position, for example on definitions of terrorism or lists of banned organisations.

The effectiveness of RATS in preventing attacks, investigating them, or capturing leading terrorists is hard to judge. RATS claims to be responsible for arresting or liquidating 15 heads of terrorist groups. Most of the anti-terrorist work is carried out by the national security services of the member-states, RATS's main role being to co-ordinate and facilitate information-sharing. Evidently, RATS's work is focused on the priorities of its member-states: Uighur groups for China; Chechen groups for Russia; and Hizb ut-Tahrir and the Islamic Movement of Turkistan for Uzbekistan, Tajikistan and Kyrgyzstan.

The SCO members have used the fight against extremist terrorism as an excuse to act against domestic dissent. NGOs such as Human Rights Watch accuse the SCO of endorsing human rights violations. They cite, for example, the SCO's description of the violent repression in Andijon, Uzbekistan, in 2004 as an anti-terrorist operation; and its support for Kyrgyzstan's refusal to let Uzbek refugees from the Andijon conflict claim asylum. (The European Union, too, took exception to Uzbekistan's actions in Andijon. It imposed an arms embargo on Uzbekistan in May 2005 citing "excessive, disproportionate and indiscriminate use of force" by the country's security forces.)

The SCO members conduct joint anti-terrorist exercises every year, usually in border areas. These manoeuvres – involving mainly security services but also some interior ministry and other military forces –

have for the first time brought Chinese forces into Central Asia. They have also given Central Asian and Russian forces a first chance to enter Chinese territory (in its north-western Xinjiang autonomous region). This year the SCO plans its largest ever military exercises, which may raise concerns in the West.

Yet the SCO should not yet be called an embryonic military alliance. It has neither established active military and defence industrial co-operation, nor offered members a collective security guarantee.

China and India in particular do not want the SCO to become a military bloc. Both prefer their bilateral military ties with Russia, which involve military exercises and defence-industrial co-operation. There is no enthusiasm in Russia for giving collective security guarantees to SCO members or observers.

Neither has membership of the SCO stopped some Central Asian states developing military co-operation with the US and NATO. Kazakhstan has signed an Individual Partnership Action Plan with NATO. Kyrgyzstan has extended the lease of Manaz air base to the US, despite official SCO opposition to foreign military bases on its members' soil. Tajikistan continues to provide facilities for the armed forces of France, as does Uzbekistan for Germany – both those European countries being part of the anti-Taliban coalition in Afghanistan.

### Economic co-operation

The SCO's economic agenda is in some ways developing more dynamically than its security co-operation. Until recently this co-operation had been mainly a sum of bilateral economic relations among SCO members, but now it is gaining a regional multilateral dimension. The SCO is removing obstacles to trade, generating funding for investment in development projects (particularly for infrastructure such as roads and railways), and simplifying procedures for banking operations among member-states.

Trade between the members of the SCO totalled \$20 billion in 2003. Although official figures are not available for later years, there is evidence that trade has grown rapidly. In the first nine months of 2006, Chinese-Russian trade alone totalled \$25 billion, up 19 per cent on the previous year. Some economists expect it to reach \$80 billion by 2010. Trade between China and the Central Asian states remains very limited, held back by poor transport links and bureaucracy, but is now starting to expand.

In recent years the economies of all the SCO states have grown at more than 6 per cent a year, with China and Kazakhstan performing best. And it is those two which are the leading proponents of turning the SCO into a stronger economic club. By 2006, Kazakhstan had invested over \$10 billion in other Central Asian states. China is particularly interested in how

economic integration within the SCO could boost the development of the Xinjiang autonomous region, where trade with SCO states accounts for two-thirds of all foreign trade. India's principal interest in the SCO and Central Asia is economic. Both Pakistan and Iran would like to become transit countries for Central Asian energy exports.

Mahmoud Ahmadinejad, the Iranian president, has proposed hosting an SCO energy summit, and has argued for the creation of a 'gas OPEC' (including Russia) which could help to set global gas prices. However, the prospect of Iran and Russia working together on gas seems remote. The recent meeting of gas producing states in Qatar demonstrated the political and economic limitations of the gas OPEC idea.

Economic co-operation within the SCO has been developing gradually since 2001. In 2003, it adopted a programme of trade and economic co-operation, setting out some key economic objectives to be realised by 2020. These include creating favourable conditions for the free movement of goods, capital, technology and services. Joint working groups have been set up to develop practical co-operation in areas such as electronic commerce, customs and investment promotion. In 2004, the SCO agreed to implement more than 120 projects, including the construction of roads and railways, joint telecoms schemes, and investments that promote cross-border trade. Energy co-operation has included plans for joint geological exploration, as well as the construction of a pipeline between Kazakhstan and China (almost completed), another pipeline between Russia and China, and an overhaul of the Kyrgyz pipeline network.

Transport is crucial to regional economic co-operation. New roads are being built to connect China, Tajikistan, Pakistan and India with the rest of the Central Asian and Caspian region. The rail network for transit from China to Europe is being improved. There are plans for a north-south road and an energy grid corridor to link Russia to South Asia via Iran. There are also plans for improved air communications across the SCO area. The UNDP has contributed funds for the Silk Road Regional Programme, a UNDP-SCO partnership that aims to revive economic and cultural ties between China and the Central Asian states.

The June 2006 Shanghai summit established a number of new economic bodies including the SCO Banking Consortium and the Moscow-based Business Council. The former includes one bank from each of the SCO states. These banks are supposed to develop closer links on settlement and other technical issues. The Consortium and the Business Council have been charged with preparing a joint investment programme for the SCO, due to run from 2006 until 2010, and covering major infrastructure projects, transport, energy, telecoms and cross-border trade. Russia announced at the summit that it would find the money to finance some of these infrastructure

projects. China has already allocated funds for project financing in a number of areas identified by the SCO for economic co-operation. It has also made subsidised loans of over \$900 million to support commodity production in Central Asian states.

However, the SCO's economic agenda continues to suffer from tensions. China has been actively and consistently promoting the idea of a free-trade zone within the SCO, while most other SCO states, including Russia, have doubts. They worry that cheap Chinese exports could undermine their economies. In addition, the Central Asian states have concerns about China's economic policy towards the region, which they fear is more focused on gaining access to gas and oil than direct investment in manufacturing or high technology joint projects.

No significant progress is expected towards a common market or a free-trade zone. Nevertheless the economic dimension of the SCO is set to expand. Kyrgyzstan says it will make economic co-operation a priority of its presidency. In the medium term, that will mean increased trade and investment among the members; more assistance from China, Russia and Kazakhstan for the development of the poorer economies; and new joint projects among members and observers in the energy field. The SCO recently set up a working group on energy and information and communications technology. One of its aims is to develop joint investment projects into the exploration and transport of Central Asian hydrocarbons.

### **A history of suspicion**

Although the growing 'economisation' of the SCO opens an opportunity for joint projects with Americans and Europeans, its relations with them have become difficult. In 2001, the US and some European governments tended to dismiss the establishment of the SCO as a hollow symbol of declining Sino-Russian influence in Central Asia. Its role looked particularly uncertain after September 11<sup>th</sup> when, despite their initial opposition, Russia and China acquiesced in the presence of American and other coalition troops in the region. But by 2004 US influence in the Central Asian states was starting to decline. Central Asian hopes that the post-September 11<sup>th</sup> partnership with the West would bring significant economic and political benefits had failed to materialise. For example, none of Central Asian states backing the coalition won any significant contracts for rebuilding Afghanistan. Later, the threat of 'colour revolutions' prompted some of them to reassess their ties with the US and to nestle up to Russia and China, which offered support for the existing regimes.

As the SCO started to gain visibility, it began to provoke concerns in the West, particularly in the United States. These concerns were reinforced in 2005, when Uzbekistan refused to extend the lease on the US airbase at Karshi-Khanabad. Then at the July 2005 Astana summit, the SCO adopted a strongly-

worded declaration, asking countries in the US-led coalition to withdraw their forces from Central Asia. The point of the Astana declaration was to demonstrate a regional consensus regarding the 'temporary' nature of the western military presence in Central Asia. China, Russia and Uzbekistan were strongly in favour of it.

The declaration had little practical impact: since July 2005 Kyrgyzstan and to some degree Tajikistan and Uzbekistan have continued to provide facilities for various members of the western coalition. But the political impact of the declaration was important. The Astana summit marked a watershed not only in SCO policies towards the West, but also in western perceptions of the SCO. In the US and Europe, there is a growing perception of the SCO as a rival or an emerging threat to western interests in Central Asia. Three major arguments underpin this view.

The first is that the SCO is trying to push the US and other members of the coalition out of Central Asia. According to this analysis, the Astana declaration threatens the prospect of a successful completion of the Afghanistan operation. Moreover, the SCO appears to be an anti-western institution that embraces those regimes – like Iran or Uzbekistan – which the US and to some extent the EU seek to isolate. Such concerns were only reinforced by Ahmadinejad's attendance at the 2006 SCO summit, at which he attacked the West and ensured that official statements endorsed Iran's right to have a civilian nuclear programme.

The second, and related argument is that the SCO is turning into a new military bloc, dominated by Russia and China, which is seeking to contain the western military presence in Central Asia. This view has been reinforced by the SCO's growing emphasis on security co-operation, including the 2006 agreement on joint anti-terrorist exercises, and the 2005 declaration on strengthening co-operation on fighting terrorism, extremism and separatism. The SCO's security co-operation has provided little support for the continuing NATO operations in Afghanistan. Moreover, China's growing military power, largely built upon Russian high-technology weaponry, is seen by many US experts and policy-makers as a long-term threat to the West. This makes the SCO's military co-operation a matter of concern.

The third argument is that the SCO has become a club of dictators that seeks to preserve undemocratic regimes. Unlike the EU and the US, the SCO supported Uzbekistan's actions in Andijon in May 2005, endorsing its claims that the use of force was justified on grounds of national security. Moreover, the SCO's members have come out strongly against the colour revolutions, including the supposed 'tulip revolution' that brought down Askar Akaev's regime in Kyrgyzstan.

These arguments reflect both the current uncertainty in the US over its long-term influence in Central Asia, and the growing perception that Russian and Chinese

policies in the region are hostile. However, a number of facts suggest that these concerns are exaggerated. First, the SCO includes Kyrgyzstan and Kazakhstan, which still maintain close ties with the EU, NATO and the US. Second, the admission as observers of India and Mongolia – both closer partners of the US

– shows that the organisation is not building an anti-western identity. Third, in some ways the SCO resembles other Asian organisations – such as ASEAN, the Economic Co-operation Organisation (ÉCO)<sup>2</sup> or the Asia Co-operation Dialogue<sup>3</sup> – which adhere to the principle of non-interference in internal affairs and therefore tend not to challenge or criticise undemocratic regimes. Even India, one of the largest democracies in the world, refrains from criticising the domestic affairs of the Central Asian states, and is busy expanding its ties with Uzbekistan, Tajikistan and Kazakhstan.

<sup>2</sup> *The Economic Co-operation Organisation was established by Iran, Pakistan and Turkey in 1985 to promote economic, technical and cultural co-operation. It was expanded in 1992 and now includes Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan.*

<sup>3</sup> *The Asian Co-operation Dialogue (ACD) was established in 2002 and includes 30 Asian states. It functions as an annual meeting of foreign ministers. It now includes three Central Asian states (Kazakhstan, Tajikistan and Uzbekistan), Russia and China, as well as the South-East Asian and Gulf states.*

### SCO-EU relations: the case for engagement

The EU should think seriously about following the example of ASEAN which, despite its difficult relations with China, has concluded a substantial co-operation agreement with the SCO. The deal focuses on areas of common interest, such as combating international crime, promoting economic co-operation and tourism, and co-operating on natural resource management and energy.

A dialogue with the SCO could assist the EU in fulfilling several of its key objectives, such as deepening ties with Russia and China, promoting economic development in Central Asia, tackling soft security threats that emanate from the region (such as drug-trafficking and migration), and enhancing its energy security. The dialogue could also cover counter-terrorism, given that several terrorist groups – such as Hizb ut-Tahrir and various networks linked to the Taliban – are of concern to both EU and Central Asian governments.

There has been some modest contact between the SCO and the EU. The High Representative for foreign policy, Javier Solana, met the SCO's then secretary-general, Zhang Deguang, in China in 2004. In July 2005, the EU appointed Jan Kubiš, a Slovak, as EU special representative (EUSR) for Central Asia, signalling that the Union wished to play a more active role in the region. His mandate specifically referred to "development of appropriate contacts and co-operation with the main interested actors in the region,

including all relevant regional and international organisations". But Kubiš did little to deepen ties between the SCO and the EU. He focused mostly on democracy and human rights in places like Kyrgyzstan, on conveying EU demands for an international investigation of the events in Andijon, and on promoting the EU's limited economic assistance programmes. In October 2006, the Council of Ministers appointed Pierre Morel, a French diplomat, as the new EUSR for Central Asia. He is in principle open to the idea of greater dialogue with the SCO, but seems reluctant to do so without a clear mandate.

This is mainly because the member-states, rather than the EU itself, take the lead in dealing with the Central Asian states. The EUSR needs to foster a new EU strategy for Central Asia that looks beyond the short-term agenda and focuses on long-term priorities and mechanisms for EU engagement. For the time being, it would not be feasible for the EU to extend its 'neighbourhood policy' to the Central Asians (that is the policy through which it offers trade, aid, participation in EU programmes and political dialogue, in return for precise commitments on economic and political reform from governments in Eastern Europe, the Caucasus and the Middle East). But the Union should make serious efforts to encourage regional co-operation, economic development, regional security and domestic reform throughout the region. An EU-SCO dialogue could help to advance those objectives.

The German presidency is formulating a new EU strategy for Central Asia, to increase co-operation in areas like energy, counter-terrorism and migration. Germany has long been the most active EU country in Central Asia. It tends to favour a soft touch in handling autocratic governments. Thus it tried – and failed – to lift EU sanctions on Uzbekistan in November 2006 and again in March 2007.

Both the Commission and the Council of Ministers have been working on the new strategy for Central Asia. Early in 2007, they produced a joint paper which called for more Commission offices in the region, more support for NGOs, help with the states' World Trade Organisation accession (Kazakhstan is already in), and in particular, aid for their oil and gas industries. The paper mentions support for an integrated Central Asian energy market; for the infrastructure of a Caspian-Black Sea energy corridor; and for extending the principles of the South East Europe energy community treaty to the region.<sup>4</sup> The paper also emphasised that the EU should differentiate between the Central Asian

<sup>4</sup> In October 2005 the EU member-states and all the Balkan countries signed the South East Europe energy community treaty. This sets out a road map for the Balkan countries to adopt the EU's *acquis communautaire* in the field of energy.

states, rather than treat them all in a similar way. It called for the EU to develop much closer ties – including some ideas borrowed from the neighbourhood policy – with Kazakhstan, because of its strategic importance, and Kyrgyzstan, because of its

relatively pluralistic political system. The paper said little about the SCO, suggesting that the EU institutions remain wary of much closer contact between the two organisations. However, in internal discussions the Political and Security Committee of the Council is being advised by its staff to deepen contacts with the SCO. An April 2007 working paper makes the case for the EU to start an "ad hoc dialogue" with the SCO on key themes such as energy and drug-trafficking.

The EU has not included Central Asia in the area to be covered by the new European Neighbourhood and Partnership Instrument, which has replaced the EU's TACIS aid programme for the ENP states and Russia. But the new Development Co-operation Instrument, which is open to developing countries worldwide, does cover the region. The EU plans a significant increase in funding for the area in the period 2007-2013, to €719 million (at constant prices). Annual average allocations will grow by 61 per cent from €60 million in 2006 to €139 million in 2013. Thirty per cent of the total will be for promoting regional co-operation, and the rest will be for bilateral programmes. The Central Asian countries are also eligible for other funds designated for thematic programmes.

At the time of writing it is not clear what the Germans can achieve during their presidency. The EU countries are far from united in their approach to Central Asia. The Nordic countries, which care most about human rights, are reluctant to increase contacts with governments that abuse them. And when France and Germany campaigned during 2006 – alongside Russia – for Kazakhstan to take over the chairmanship of the OSCE, Britain led a group of member-states that blocked this move, on the grounds that the country's human rights record was not up to scratch.

However, it may be helpful that Kyrgyzstan has taken over the SCO presidency for 2007. Its president, Kurmanbek Bakiev, has declared a willingness to invigorate the work of the SCO contact group on Afghanistan, and to strengthen trade and economic co-operation within the SCO. Such initiatives should help to facilitate a closer EU-SCO dialogue. This could take the form of an informal summit between the two sets of leaders, or a more modest presence of EU officials at SCO summits, or a special conference involving European and SCO officials and experts. The dialogue should focus on five priorities:

★ **Economic development:** The two organisations should reaffirm the importance of economic development in Central Asia, and identify potential areas or specific projects where they could co-operate. Such projects should build on the SCO's own priorities and on the EU's new Development Co-operation Instrument. Projects could cover areas such as poverty reduction, agriculture, water management and infrastructure development. An agenda focused on development could also tackle relatively sensitive issues such as economic reform, liberalisation, deregulation,

customs reform, transparency, corporate governance, economic assistance to ethnic minorities, and the encouragement of cross-border trade. The Central Asian members of the SCO in particular have been slow to embrace such reforms. They focus instead on maintaining controlled economies, protectionism and the corrupt system of privileges that shores up their governments' power-bases.

- ★ **Border management:** The EU and the SCO should focus on common security threats such as drug-trafficking, corruption and organised crime. The two organisations could set up a joint working group on such soft security threats. This could be inter-governmental or bring together bodies such as Europol (the EU's joint police office) and RATS. Its tasks should be to improve exchanges of information, provide training for officials in Central Asia and Afghanistan, and even to conduct joint operations (similar to the Europol-Russia collaborations that tackle organised crime). The EU's 'border management in Central Asia' programme is widely recognised as one of the most successful projects to have come out of TACIS. And the SCO has a track record of resolving border disputes and promoting border security against threats of insurgency, drug-trafficking and terrorism. So border security should be a natural area for dialogue, co-operation and joint action. In the long term the EU and the SCO could set up joint civilian border monitoring missions against drug-trafficking and organised crime.
- ★ **Afghanistan:** The EU-SCO summit or conference could include discussions on Afghanistan. Many EU states are major donors for the reconstruction and assistance programmes in Afghanistan, while SCO states are involved on the ground, working to develop roads, electricity links and energy projects. Hamid Karzai, the Afghan president, has attended two SCO summits and says he wants closer economic co-operation with the organisation. The SCO has set up a special working group on Afghanistan and has signalled informally that it could be prepared to see other organisations take part in these meetings as observers. This could provide a good opportunity for experts and diplomats to develop common approaches and to exchange views on such problems as drug-trafficking and the resurgence of the Taliban. The EU should encourage closer economic ties between Afghanistan and its neighbours, and promote programmes which encourage economic development and poverty reduction.
- ★ **Energy:** The EU-SCO dialogue should also cover energy security. The EU expects that a lot of its future demand for oil and gas will be met by Russia and Kazakhstan. Yet those two countries are planning to build pipelines to fast-growing markets in China and South Asia. The

Kazakhstan-China oil pipeline, due to carry oil from the Caspian Sea to Western China, is almost completed. An oil pipeline from Russia to China has been agreed in principle. Given that the EU is likely to compete with China and possibly India over oil and gas from Russia and Central Asia, they all need a strategy for managing this emerging rivalry without compromising their respective energy security concerns.

- ★ **Governance:** Last but not least, the EU-SCO dialogue should deal with human rights and good governance, treating them as crucial factors that will influence the long-term stability of the region. The current political context – with approaching presidential elections in Russia and Uzbekistan – will make this difficult. However, the EU may be able to count on SCO members such as Kyrgyzstan, and observers like India and Mongolia, to support this agenda. The dialogue could also extend to educational and scientific exchanges, as well as the basis on which local and international NGOs are allowed to operate in Central Asia.

A dialogue between the SCO and the EU should help the latter to generate new ideas for its strategy towards Central Asia. As part of its new strategy, the EU should encourage the SCO to strengthen its economic dimension by suggesting that 'an economic SCO' will have a greater chance of being taken seriously by influential organisations like the EU. The EU could also offer its expertise on how to achieve gradual economic integration. In the security sphere the EU could offer the SCO a dialogue on migration, border security and the fight against cross-border crime, thus moving the emphasis from military to human security concerns. Finally, the EU's objectives on human rights and democratisation are not best served through isolation: EU sanctions against Uzbekistan have had no effect on its domestic policies. Rather, the EU should discuss these issues with the SCO.

The EU must not ignore the SCO, or fail to acknowledge its growing role in Central Asia. The EU should stop thinking about the SCO purely in geopolitical terms, and recognise its contribution to regional stability and development. The EU should avoid the path of opposing the SCO in order to contain Chinese and Russian influence in Central Asia. It should recognise that all the Central Asian states view the SCO as a positive and important vehicle for their own long-term interests. In the long run, without dialogue with the SCO, the EU is unlikely to fulfil its own potential in the region.

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