

## **Shanghai Bloc Struggles for Relevance**

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Leading members Russia and China ultimately have separate interests, especially when it comes to trade and energy deals in Central Asia.

As leaders of the Shanghai Cooperation Organisation gather for a September 13 summit in the Kyrgyz capital, the bloc's senior members, Russia and China, will be keen to present a common front on security and economic issues.

Russia will be looking for support for its position on Syria from other members, which aside from China include Kyrgyzstan, Kazakstan, Tajikistan and Uzbekistan.

Despite its ambitions to be taken seriously, the Shanghai Cooperation Organisation (SCO) has yet to emerge as a formidable international player.

The fundamental barrier is that the two major players – Moscow and Beijing – have their own agendas that cannot be sublimated in a regional grouping. Their diverging interests are particularly apparent when it comes to the economic cooperation, one of the SCO's core aims along with regional security. Not only that, but the competition is played out in Central Asia, on the home ground of the bloc's other members.

When the presidents gather in Bishkek, the main topics on their agenda will be formulating a security strategy for the region to cope with the withdrawal of NATO forces from Afghanistan in 2014, discussing economic cooperation among the membership, and issuing a declaration containing a joint statement of views on Syria.

Speaking at an advance press briefing on September 9, ahead of Bishkek summit, Russia's deputy foreign minister Igor Morgulov tried to downplay any suggestion that Moscow and Beijing might be stepping on one another's toes in the region.

"The Central Asian region is an important area of Russia-China relations. We don't compete with each other in Central Asia; we pursue policy while taking mutual interests into account," Morgulov said.

But in pursuit of their own economic interests in Central Asia, the two states are inevitably led into competition for dominance.

Over the last decade or so, Beijing's economic might has turned it into the biggest investor in the Central Asian energy sector. Not only has it secured major deals to import Kazak oil and Turkmen and Uzbek gas, it has paid for pipelines to get the fuel onto its own territory. Trade with its Central Asia neighbours has also risen, and local markets there are flooded with cheap Chinese consumer goods. Finally, Beijing is advocating the creation of a free-trade zone within the SCO region.

None of that is what Moscow wants to see happening in states that traditionally fell within its sphere of influence. It has tried to regain ground by pushing for closer economic integration, for instance with the creation in 2010 of a Customs Union with Kazakstan and Belarus. Kyrgyzstan is due to join next year and there are plans for Tajikistan to enter as well. Further down the line, Moscow wants to create a Eurasian Economic Union with its former Soviet partners.

Kyrgyzstan's accession to the Customs Union comes as a particular blow to China because the two states, as members of the World Trade Organisation, have enjoyed flourishing trade, with Kyrgyzstan serving as a gateway for Chinese goods entering Central Asia. Chinese plans to develop the troubled northwestern Xinjiang region were closely tied to this cross-border trade, and a lot of investment has gone into establishing a "special economic zone" there.

Now Russia is driving efforts to expand the Customs Union and create a common economic area enabling a free flow of goods, services and labour. If the supranational Eurasian Economic Union emerges from this, it will effectively serve as a barrier for unfettered imports of Chinese goods.

Another manifestation of the rivalry between Russia and China is the disagreement over how to establish a development bank for the SCO.

Both Moscow and Beijing are keen to have a funding vehicle to promote trade and investment within bloc member states. The proposed bank could fund large-scale transport projects such as railways. China would like to have infrastructure in place allowing it to use Central Asia as a transit route to Iran. The Central Asian countries in turn would benefit from routes to world markets that bypass Russia.

Influence over shaping the bank will mean control over the kind of projects that are favoured for funding.

China is proposing to create the bank from scratch, operate it out of Beijing – where the SCO’s secretariat sits – and with members holding stakes proportionate to their financial capacity. But Russia is reluctant to allow the funding institution to be set up on Beijing’s terms. Fearing Chinese domination, Russia has proposed an alternative model – expanding the mandate of the existing Eurasian Development Bank, which is led by Moscow.

Judging by comments which Russian first deputy prime minister Igor Shuvalov made to the media April, it is possible that Moscow might not insist on its preferred option and accept a compromise, as long as that does not mean caving in altogether to Beijing.

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**Location:** Central Asia

China

Uzbekistan

Tajikistan

**Topic:** Diplomacy

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**Source URL:** <https://iwpr.net/global-voices/shanghai-bloc-struggles-relevance>