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## **RUSSIAN FEDERATION GEO-ECONOMIC IMPACT AND POLITICAL RELATIONSHIP IN SHANGHAI COOPERATION ORGANIZATION AND ITS INFLUENCE IN THE ENERGY MARKET**

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### **Abstract**

This study is in regards to Russia Geo-economic interest and influence in Shanghai Cooperation Organization and the importance of SCO as a sufficient Eurasian organization's leadership in energy market and the prospective of Russia to affect the energy market and energy reserve as a major authority within the organization.

## **Keywords**

SCO, Russia Energy Influence, Shanghai Corporation Organization

## **1. Introduction**

Shanghai cooperation organization Is the most sufficient Eurasian organization in central Asia, it started by shanghai 5 first in 1996 by Chine, Kazakhstan, Tajikistan, Kyrgyzstan and Russia later by re constructing the organization to make it more expandable in areas such as economy and security at the same time by joining Uzbekistan they changes its name to Shanghai Cooperation organization and it was established in 2001 and by 2002 heads of member signed SCO charter, as the importance of security in central Asia and its relations with chine Russia, NATO and western power interest in central Asia SCO has helped to limit west influence in central Asia in interest of Chine and Russia , like many other multicultural organization SCO has a great impact in security cooperation among members anti-terrorism, drug and human trafficking anti separatism SCO interest is widely from security interest to balancing economy power in the region, cooperation in energy, communication and financial transaction.

Aside from full member SCO currently has observers and dialog partners and SCO's full members account for approximately 60 percent of Eurasia plus nearly a quarter of world's population, aside from this fast growing economy of SCO members has turned it into one of the world's fastest growing economy, SCO has great potential in energy sector as members with observer hold nearly 47 percent of world's natural gas There are annually meeting hold every year among heads of government and observers they normally send high official represented to the meeting (except India) in regular meeting security is one of the main thing to be discussed among members the discussion normally take place at one of the members capital or major city, the purpose of the meeting are normally economy and security bases sometimes to exchange information, experts in different area cooperation in technology.

SCO secret of success in defensive is more diverted to Russia and economy more to china and the main goal of SCO in security is to become in full grown into significant security organization like NATO, although members have different opinion over issues in security and character against west.

The first military exercise of SCO after a series of discussion toward political and military ranking general watched the war game it was the first time in history of SCO that such activity takes place. At Bishkek summit all the defense ministers agreed in case of a security threat in the region or to the members to create and formulate a mechanism to respond any peace threat ad to stabilize the region, similar formats can be found in NATO as well.

## **2. SCO and CSTO relationship**

Russia has tried to bring closer relationship and common ground between Commonwealth of Independent States and Shanghai Cooperation Organization to develop a deeper state to fight crimes terrorism and separatism to create an eastern bloc in the future but there as some of the CSTO members are not in central Asia with different security issue and interest on the top of it closer ties with west countries like Azerbaijan and Georgia at the same time China didn't show much interest.

## **3. The Business Council of the Shanghai Cooperation Organization**

The business council was established in 2006, June 14 in Shanghai city in order to approve the document and officially accepting the business council representative from Russia, China, Tajikistan, Kyrgyzstan and Uzbekistan met in Moscow to sign the document and regulate the activities of business council.

All the members agreed to cooperate in education supporting new technologies health care, they also agreed to exchange technology and invest into energy, communication and transportation sectors with priority to projects such as 'joint center of disaster medicine' establishment of joint projects in exploring transition and production of energy resources. There is a long cooperation and well established relationship between SCO Inter Bank and SCO Business Council. Business Council participates in creation of an energy club among members to stabilize the market and develop joint production expansion of energy projects among members.

## **4. Interbank Consortium**

The bank provides low rate loans to the members; cooperate between member's bank for loan financial aid disaster funds and other funds needed for the joint projects education and health care projects between members and foreign partners which are sometimes involve in the projects.

## **5. SCO and United State**

As Russia and China established SCO to cooperate in security and economic aspects they also tried to use SCO as a tool to keep United States existence out of central Asia, although there have been discussion to accept non regional player such as United States or European Union as a non-member to increase the efficiency of the organization and to involve west in central Asia but Russia and China has never showed a green light to take serious action although United States has influence in countries like Tajikistan or Kazakhstan, American

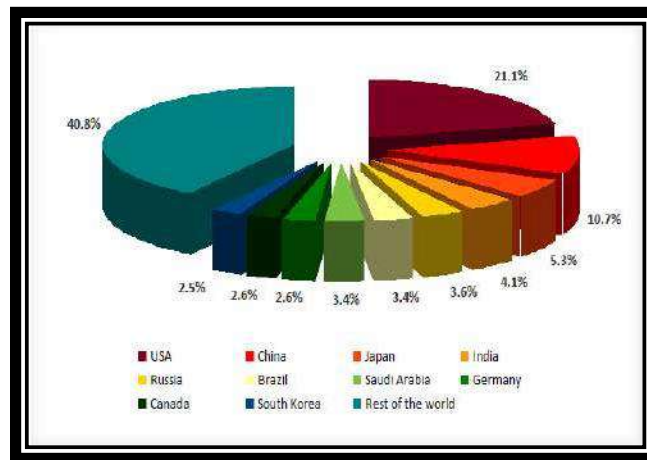
company operates in most central Asian countries united states is not considered as a strong threat to Russia and China.

The list below is referred to current SCO's observers, members, dialogue partners and guests

- Members: China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan
- Observers: Afghanistan, India, Iran, Mongolia, Pakistan
- Dialogue Partners: Belarus, Sri Lanka, Turkey
- Guest attendances: ASEAN, CIS, Turkmenistan

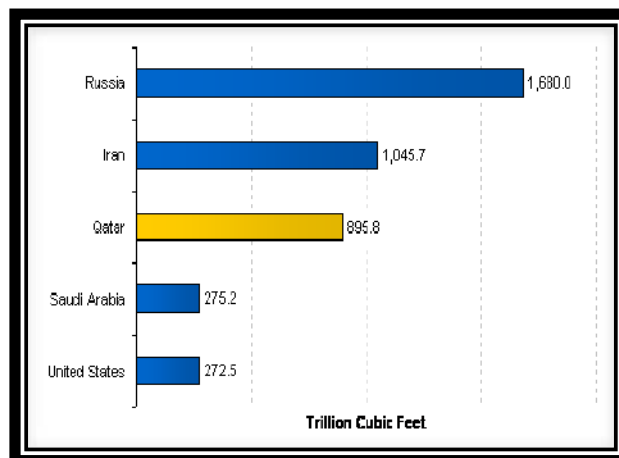
At below there are portfolios of each members and we could see to study the improvement of each country according to their statistic before and after joining the SCO.

Top 10 countries with the highest oil consumption are shown below as we see Russia (3.6%) China (10.7%) and India (4.1%) are among them SCO not only in production in terms of producing a huge amount of oil and gas but even as consumer are still consider important and a large part of the world consumption



**Figure 1: OIL Consumption: Ten First Countries In The World In 2012**

As we see in top global oil reserve two SCO countries one as a leader and member the other one as a potential observer which considering only 10 countries with a the amount of oil in Iran and Russia it is clearly show the importance of these countries for the world energy and for SCO.



**Figure 2:** *World Natural Gas Reserve by Country, January1, 2011*

*Source: Oil & Gas Journal Jan1, 2011 and EIA Natural Gas Navigator Dec 31, 2009*

Iran and Russia both hold huge gas deposits and by far are higher depositors compare to the rest of countries. As the countries with the largest oil deposit we can find Iran and Russia with such a high number among top 10 countries.

We all know the importance of oil and many other petrochemical products that come from it not to mention how many wars has happened for a country to another to capture more oil which this give them the power to increase their influence to the world, as a matter of fact without oil we would face a series problem to interact our daily life and by knowing a huge amount of oil lay in some central Asian countries including Kazakhstan, Uzbekistan , Russia, Iran and some of the world’s largest oil consumer as India and China, we would instantly realize the importance of SCO in oil and gas for the world.

Gas consumption is increasing dramatically due to price and shortage of oil as well as being more environmental friendly this is where Russia and Iran and central Asian countries as gas producer could play a significant rule to impact and control some of world’s largest gas deposit and to control market supply and price and the rest of SCO members including India China and Pakistan which are some of world’s most populated countries and energy hungry they would impact the demand market by increasing or decreasing their gas import

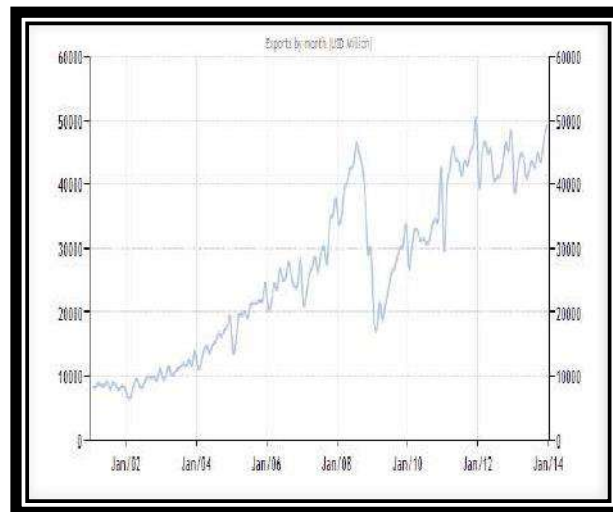
SCO is working its way to become as a significant organization and major player in geopolitics of the region and world’s hungry energy market, there are many exploration in central Asia there is still a huge hidden potential laying down in new independent soviet union countries which in soon future it will appear plus SCO itself has some of the world’s largest oil and gas consumers that lead the organization to Overall

SCO would heavily influence the energy market in the future and its direction of price supply as well as demand.

## 6. The Russian Federation, RF

Russia is the largest country in the world with the area of 17.075, 4 thousand sq. Km, it is a government federation as Russia is a large country all the way from East Asia to Scandinavia in Europe, it shares border with Finland and Norway in North West and in east Europe with Poland, Estonia, Latvia, Lithuania, Byelorussia and Ukraine in central Asia and south west with Georgia, Azerbaijan, Kazakhstan, China, Mongolia and in south east with Democratic People's Republic of Korea, although Russia is rich in natural resources, particularly in Oil and Gas it is considered being the largest gas depositor and in mineral resources It is counted as 20% of the world reserve

The national income per capita is 6840 us dollar, Russia is one of the world's well known exporters of Weapons, mineral resources, Oil and Gas and Russia along with China play significant role in SCO all aspects of economy, security, military, culture and politics.



**Figure 3: Russia Exports**

Source: [www.Tradingeconomics.com](http://www.Tradingeconomics.com)-Central Bank of Russia

As the export in Russia is reported by Russian central bank, it shows decrease in Russian export from 39400 us million in January 2014 compare to the previous year 49155 us million in December 2013 Russia consider to be the fifth largest economy in the world which is heavily rely on oil and gas export counted for

58% of the total export chemical products and minerals share a great part of export as well, The major exportpartners are Netherlands 14, 4%, China 6.4%, Italy 5.3%, and Germany 4.5%.

### **6.1 Energy and Natural resources**

Russia is one of the world's major oil and gas producer and exporter, Russian economy is heavily depend on energy export, Russia officially is the third largest oil producer just behind Saudi Arabia and United State, Russia consider to be world's Third largest nuclear energy producer and the second country in number of reactors.

As of January 2013 total oil reserve of Russia was about 80 billion barrels according to the oil and gas magazine, the deposit area is central and western Siberia in 2012 Russia exported more than 7 million bbl. of crude oil at below there is a chart that show the difference between production and total consumption.

### **6.2 Russia and energy market**

Russia is one of the largest producer and exporter of oil, where it plays significant rules in its GDP, therefore Russian government has invested heavily in oil infrastructure and building new pipelines, Russia has tried to use other sources of energy to minimize the fossil and oil energy sources such as nuclear power plantas Russia has one of the highest numbers of it in the world.

As soviet union was collapsed Russia gas production dropped significantly but in 2002 it start rising with the exception of the year 2009 it is still growing , as Russia has the largest gas deposit in the world thereis still much of infrastructure and investment needed to grow and increase gas production efficiency to satisfy Russia great gas potential.

Although the ratio of gas consumption in Russia is high, there is still a fairly large gap between production and consumption which allow Russia to export gas and be known as one of the major exporter and player in the market. Russia is one of the largest exporter of gas which to some stage European countries are depend on it, as Russia would like to keep and establish itself as a major gas exporter it has to keep up with production invest in new gas projects allow foreign companies to operate across the country arrange joint venture projects as well as cooperation in technology fields with foreign companies as well as institution Russian oil consumption is high due to the countries cold nature and being one of the largest countries in the world it makes the pipeline infrastructure difficult although after the soviet union the consumption dropped significantly but in recent year is improving but there is still a fairly high gas compare to its production which help the county's gas export.

### **6.3 Russia interest in SCO**

Russia is a world power bordering with countries across Eastern Asia to eastern and northern Europe. Russia uses the SCO to undertake to urge many-sided support for its policy once it can get Chinese support, and to thwart Beijing once it can't: Russian-Chinese rivalry is additionally a key factor. Moscow uses the SCO as forum to "bolster criticism of the West and NATO on problems like Syrian Arab Republic and missile defense. But it additionally takes any chance to thwart proposals that may extend Beijing's regional reach.

Alexander Cooley, in his recent book *Great Games, native Rules*, additionally addresses CSTO-SCO rivalry: Relations between the Russian-led CSTO and also the Chinese-led SCO stay unsure and probably competitive. Although the organizations are said to coordinate at the Secretariat level, they have not reached a transparent division of labor, nor have they followed through on earlier announcements to implement joint programs. The upper global profile and status of the SCO as a regional security organization clearly frustrate Russian policymakers, who argue that the CSTO is more advanced in its institutional functions and operational capability than the Beijing-based organization. With such variations in status, the organizations risk obtaining drawn into "covert and dangerous competition," at least from, Moscow's perspective.

China, Russia's big neighbor to the southeast, could be a key component in it explored for non- Western partners. In May, President Putin with nice fanfare signed an agreement to export gas to China; the deal had been within the works for years however Russia appears to have been touched to compromise on price for the sake of boosting ties with Beijing. But military cooperation is a good additional salient image for Russia, and also the Russian press has recently seen revitalization in interest within the SCO. One statement in August from the state agency RIA Novosti referred to as the organization "A New alternative To the West."

"In the present situation, connected with the events around Ukraine, any Russia-Chinese exercises will definitely seem as a signal to the West," aforementioned Russian foreign affairs expert Fyodor Lukyanov in an interview with the web site Svobodnaya Pressa. "And neither China nor Russia is attempting to dispel that impression. It's within the interests of each government for the West to assume that China and Russia are becoming closer politically and militarily."

Nevertheless, Lukyanov stated, there are practical limits to military cooperation between China and Russia. China is not interested in military alliances generally, and its major security interests don't essentially coincide with Russia's. (One exception could also be Central Asia, the SCO's area of responsibility, wherever both Beijing and Moscow are disturbed about a potential spillover of instability from Afghanistan following the U.S. and NATO retreat this year.)

(Tiezzi, S., 2014) stated that Russia, as the host of 2015 SCO summit, can have a major role in spearheading new initiatives over following year. Promoting the SCO fits China and Russia's shared goal of making Asian security architecture independent of the USA and its allies

Three major suppliers of energy -- Russia, Turkmenistan and Kazakhstan - are playing crucial role within the SCO energy club.

(Salimov, O., 2014) also mentioned that Earlier, Russia and China, the two major players of Shanghai Cooperation Organization, have declared their intention of national currencies turnover within the recently started natural gas delivery project. Therefore it's only logical for Russia to use the SCO's chairmanship and natural resources leverage to expand the organization through India, Pakistan, and Islamic Republic of Iran and to denounce Euros and dollars once refocusing from Europe to Asia.

These include increasing members' monetary and banking cooperation in regional trade and economy, and an intensification of efforts in establishing their own Development Fund and Bank of Development.

## **7. Conclusion**

Russia holds leading positions within the SCO and CSTO and may extract substantial economic and political advantages from the merger. Russian influence would be increased by the coverage of China, as a determinant member of SCO, into the CSTO with the imposition of sure obligations that extend on the far side political or diplomatic support and need direct military assistance. The wide debated natural gas deal recently terminated between Russia and China bear the characteristics of leverage in Russia's arrange to persuade China on a SCO-CSTO merger. In part, it explains the fast conclusion of a gas deal that took ten years to negotiate.

While an SCO-CSTO merger might probably give rise to a very powerful international organization and an outright rival of NATO and also the EU within the eastern hemisphere, Russia and China still have variety of conflicting interests that they have to figure through, consist of regional disputes, rivaling claims to overcoming and dominance in Central Asia, and Russia's attempt to make balance between China and Japan. The intensified desires for an organizational merger would also require Russia to extend its dependence on China in an endeavor to exclude the U.S.A and EU from its historical zone of influence. Hence, it remains to be seen whether or not the SCO-CSTO can move beyond political rhetoric.

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