

# Deepening Economic Cooperation in the Shanghai Cooperation Organization: Opportunities, Barriers and Approaches

---

*Han Lu*

**E**conomic cooperation is an important foundation and development area for the Shanghai Cooperation Organization (SCO). Over the past 17 years, the SCO has made significant progress in regional economic cooperation, but it has also encountered many specific difficulties. The expansion of the SCO membership in 2017 brought opportunities to regional economic cooperation. Standing at this new historic starting point, the SCO should make full use of various favorable conditions, work hard to overcome the negative influence of internal and external unfavorable factors, strengthen solidarity and cooperation, solve problems that hinder development, and promote a new level of economic cooperation.

## Major Achievements of SCO Economic Cooperation

Guided by the Program of Multilateral Trade and Economic Cooperation, signed by SCO heads of state in 2003, the SCO member states have worked together and made remarkable achievements in regional economic cooperation.

### **Codification and institutionalization of cooperation**

A legal basis for regional economic cooperation has been established. Since its establishment, the SCO has witnessed the signing of a series of

---

**Han Lu** is Associate Research Fellow at the Department for European-Central Asian Studies, China Institute of International Studies (CIIS).

legal documents on regional economic cooperation. These include the memorandum on the basic goals and directions for regional economic cooperation among the six governments of the SCO and on launching a process of facilitating trade and investment among them (September 2001), the Program of Multilateral Trade and Economic Cooperation (September 2003), the Action Plan on Implementation of the Program of Multilateral Trade and Economic Cooperation (September 2004), a joint initiative on accelerated multilateral economic cooperation to overcome the global financial and economic crisis impacts (October 2009), the Strategic Plan for the Medium-Term Development of the SCO (June 2012), the Development Strategy of the SCO until 2025 (July 2015), and the List of Measures to Promote Project Activities within the SCO in 2017-2021 (October 2016). These documents clarify the goals, tasks and measures for regional economic cooperation. On this basis, the member states have also signed a number of cooperation agreements in such fields as customs, transportation, finance, e-commerce and agriculture.<sup>1</sup>

A regional economic cooperation mechanism has been established. Up to now, the SCO has established a number of ministerial coordination mechanisms on economy and trade, transportation, finance, central banks, agriculture, and science and technology. Under the Economic and Trade Ministers' Meeting, a committee of senior officials and seven professional working groups respectively on customs, inspection, e-commerce, investment promotion, development of transit potential, energy, and information and telecommunications have been set up.<sup>2</sup> Also within the SCO framework, an industrialist committee and an interbank association have been founded, which has facilitated cooperation and mutual investment among the industrial communities of SCO member states. The continuous improvement of the SCO's economic cooperation mechanisms provides a necessary guarantee for the development of regional economic cooperation.

---

1 Liu Huaqin, "Strengthening the SCO's Regional Economic Cooperation," *Russian, East European & Central Asian Studies*, No.1, 2014, p.32.

2 *Ibid.*

## **Rapid expansion of regional trade**

Since the SCO's establishment, the overall trade volume in the region and the trade volume among its member states have achieved rapid growth. In 2017, the total trade volume of the SCO's six original member states was US\$4.9 trillion. In 2001, this figure was only \$672 billion.<sup>3</sup> The trade volume of China was 8.2 times the size of 2001, and the figure in Russia, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan was respectively 3.73, 3.7, 4.5, 5.9, and 2.6 times.<sup>4</sup> After the accession of India and Pakistan to the SCO, the total trade volume of SCO member states in 2017 reached \$5.72 trillion,<sup>5</sup> marking a further expansion in scale of regional trade.

The member states have fostered increasingly strong trade ties and become major trading partners to each other. In 2017, China's trade volume with other member states reached \$217.6 billion.<sup>6</sup> China has become the largest trading partner of Russia, Kyrgyzstan, India and Pakistan, and the second largest trading partner of Kazakhstan, Uzbekistan and Tajikistan. The bilateral trade volume between China and Russia and that between China and India accounted for 38.7% and 39.4% respectively of the total trade volume between China and the other SCO member states. At the same time, the proportion of trade with other members in all SCO member state's respective total trade volume has increased to varying degrees. The significant increase in the proportion of intra-regional trade shows the effectiveness of regional economic cooperation.

## **Steady progress in regional investment**

Over the past 17 years, with the rapid economic growth of the member states and the development of regional economic cooperation, the investment

---

3 See the respective websites of the Statistics Bureaus of China, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan for national data.

4 *Ibid.*

5 See the respective websites of the Statistics Bureaus of China, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan, and the respective websites of Chinese Economic and Commercial Counsellor's Offices in India and in Pakistan, for national data.

6 For specific data, see the website <http://www.customs-info.com>.

potential of the SCO's member states has gradually emerged. The countries' attraction for external funds has been continuously enhanced, and the scale of inbound foreign capital in the region has shown a rapid upward trend. In 2017, the total foreign direct investment of the SCO's six original member states was \$178.86 billion, which was 2.8 times the size of 2003.<sup>7</sup> While foreign capital inflows have accelerated, mutual investment among member states has also increased significantly. According to statistics of China's Ministry of Commerce, by the end of 2017, China accumulatively invested more than \$83 billion in other SCO member states. At present, China has become the largest source of investment for Uzbekistan, Kyrgyzstan and Tajikistan, and has become the fourth largest source of investment for Russia and Kazakhstan. In return, investment from other SCO member states to China has also become more active. By the end of 2017, the total investment of all other member states in China totaled \$2.07 billion. Investment cooperation has driven the progress of hundreds of energy, transportation and agricultural projects. The cumulative contract value of China's engineering contracting projects in other SCO member states reached \$213.3 billion, with a cumulative turnover of \$153 billion.

In addition, fields for mutual investment, ways of investment, and the variety of investors are all the more diverse. The investment areas extend from resources development, agriculture and processing toward infrastructure construction, machinery manufacturing and services. Besides direct investment, there are various other forms of investment including medium- to long-term loans, equity, financial investment, joint venture funds, and foreign aid.<sup>8</sup> From the perspective of investors, a great number of both large enterprises and small- and medium-sized enterprises (SMEs) have actively participated in regional economic cooperation. The expansion of regional investment cooperation has

---

7 China's FDI data comes from the website Invest in China, <http://www.fdi.gov.cn>. The FDI data of Russia, Kazakhstan and Kyrgyzstan respectively comes from the websites of the three countries' central banks. Data of Uzbekistan and Tajikistan is from the respective websites of Chinese Economic and Commercial Counsellor's Offices in Uzbekistan and in Tajikistan. Tajikistan's FDI is \$528 million from January to June 2017.

8 Sun Bo, "An Analysis of SCO Economic Cooperation," Proceedings of the 2nd Jinricaiifu Forum 2016, May 2016.

greatly stimulated regional economic cooperation and regional trade.

### **Significant progress in trade facilitation**

The SCO has made significant progress in promoting trade facilitation. On one hand, institutional arrangements are gradually advancing. The SCO Working Group on Trade Facilitation, after convening three meetings, has laid the foundation for study and formulation of practical trade facilitation measures. On the other hand, great achievements have been made in strengthening connectivity. In 2014, all member states jointly signed the Agreement on Creating Favorable Conditions for International Road Transportation, which is conducive to exploiting the potential of transit transport of member states, deepening regional connectivity, and raising the level of economic and trade cooperation.

Over the three years since then, a series of projects for connectivity have blossomed and yielded fruits in Russia, Kazakhstan, Uzbekistan and Tajikistan. A host of exemplary infrastructure projects such as the China-Europe railway express, the Western Europe-Western China railway, the Qamchiq Tunnel of the Angren-Pap railway line, the Datka-Kemin 500 kV power transmission line, the Ayni-Panjakent highway, and the Vakhdat-Yavan railway have been successfully completed. Regional networks of energy, transportation and telecommunications have gradually taken shape. In addition, progress has also been witnessed in the facilitation of customs clearance, payment and settlement, and inspection and quarantine. The member states have reached consensus on a demonstration project for promoting the SCO information highway and using electronic signatures for cross-border electronic cooperation, which would greatly make bilateral and multilateral trade more convenient. China has also signed bilateral currency swap agreements with Russia, Kazakhstan, Tajikistan and Pakistan. In March 2017, the Industrial and Commercial Bank of China (Moscow) officially launched the renminbi clearing bank service in Moscow to further facilitate the use of the Chinese currency in economic and trade exchanges with Russia. It also plays an exemplary role in the use of local currency settlement in the economic and

trade interactions between China and other SCO member states.

## **New Opportunities for SCO Economic Cooperation**

The achievements of the past decade or so have laid a good foundation for further deepening economic cooperation of the SCO. With the accession of India and Pakistan to the organization, the SCO's regional economic cooperation will usher in a new period of opportunity in the coming period.

### **Stable political and security situation**

First, Russia and Central Asian countries, keeping vigilant about the “color revolution,” have further accelerated the construction of their domestic political systems and firmly controlled the domestic situation to maintain stability. Russia's authoritarian political system is generally stable, and its domestic opposition is weak and scattered. With Vladimir Putin re-elected president in 2018, Russia's political situation is expected to remain stable for the next six years. The transfer of power in Uzbekistan and Kyrgyzstan was also smooth and successful. After the election of Shavkat Mirziyoyev as president, Uzbekistan has carried out a series of internal reforms, eased domestic contradictions that had accumulated over years, stabilized the social situation, thus reinforcing the ruling foundation. In Kazakhstan, the status of Nursultan Nazarbayev as president is consolidated, and he has stepped up his layout for future governance.

Second, the reliance of Central Asian countries on China and Russia in terms of both economy and security is increasing. The two major powers' presence in the region is on the rise, while the United States and other Western countries' influence is on the decline following their adjustment of Central Asia policy, which means they will reduce intervention into internal affairs of Central Asian countries.

Third, the relations among Central Asian countries have improved. Uzbekistan took the initiative to ease relations with Kyrgyzstan and Tajikistan, and with the help of international organizations, delimited part of its borders



# 上海合作组织成员国元首理事会会议 ЗАСЕДАНИЕ СОВЕТА ГЛАВ ГОСУДАРСТВ-ЧЛЕНОВ ШАНХАЙСКОЙ ОРГАНИЗАЦИИ СОТРУДНИЧЕСТВА

2018年6月9-10日 中国·青岛 9-10 ИЮНЯ 2018 Г. ЦИНДАО КИТАЙ



The 18th Meeting of the Council of Heads of Member States of the Shanghai Cooperation Organization (SCO) was held on June 9-10 in China's coastal city of Qingdao. The SCO Qingdao summit was the first since the accession of India and Pakistan to the organization in the previous year.

with Kyrgyzstan, opened its borders with Tajikistan, and resumed regular direct flights between Tashkent and Dushanbe. The persistent conflicts in the region over water resources, environmental issues, and territorial borders have shown signs of de-escalation.

Fourth, although the Central Asian region is facing threats from the return of Islamic extremists and the situation in Afghanistan, regional countries have kept close attention to the development of terrorist activities and increased their efforts to crack down on extremists. The security situation is effectively within their grasp, and will be generally manageable in the coming period of time.

## **Improving economic situation**

The improvement of regional economic situation will facilitate further development of economic cooperation. First, the economies of Russia and Central Asian countries have rebounded. Due to the rise of international

oil prices and its own counter-crisis measures, Russia's economy began to recover in 2017, with its GDP increasing by 1.5% on a year-on-year basis.<sup>9</sup> According to prediction of its central bank, Russia's economy would grow by 2% in 2018. The World Bank's forecast for the average annual growth rate of Russia's economy from 2018 to 2020 also put the number at about 2%. Moreover, the economic recovery in Russia has driven Central Asian economies out of doldrums. Kazakhstan's economy grew by 4% in 2017, Uzbekistan's economic growth rate was 5.3%, while Kyrgyzstan's was 6.9% and Tajikistan's was 4.5%.<sup>10</sup> It is expected that over the next two to three years this growth momentum would continue. In addition, the GDP of the SCO's two new members, India and Pakistan, in 2017 was \$2,439 billion and \$304.4 billion, a year-on-year increase of 7.2% and 5.3% respectively,<sup>11</sup> which also maintains an upward trend. At the same time, all the SCO member states, with strong eagerness for stability and development, have formulated a series of medium- to long-term strategic plans for economic development, created favorable conditions for introduction of foreign investment and expansion of mutual trade, thus providing broader space for regional economic cooperation.

Second, multilateral economic cooperation mechanisms such as the World Trade Organization (WTO) can help countries deepen economic cooperation. Except for Uzbekistan, which is still in the negotiation process for accession to the WTO, the other SCO countries have all acceded to the WTO. The WTO multilateral trading system will become an important platform for SCO member states to carry out economic cooperation, and provide institutional guarantees for the cooperation. All member states will strictly fulfill and honor their commitments made when entering the WTO, and accelerate the process of trade and investment liberalization. This will help improve the level of regional trade and investment liberalization and facilitation, and greatly optimize the

---

9 Федеральная служба государственной статистики Социально-экономическое положение России - 2017 г., [http://www.gks.ru/bgd/regl/b17\\_01/Main.htm](http://www.gks.ru/bgd/regl/b17_01/Main.htm).

10 See the respective websites of the Statistics Bureaus of Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan.

11 See the respective websites of Finance Ministries of India and Pakistan.

environment for regional economic and trade cooperation.

### **Member states' strengthening willingness to cooperate**

In the coming period, due to the fluctuation of international energy prices and Western countries' economic sanctions against Russia, it is difficult for the economies of Russia and Central Asian countries to grow rapidly. In order to break away from this predicament, Russia and Central Asian countries have made economics the top priority for national development, and their willingness to strengthen multilateral economic and trade cooperation within the SCO framework has significantly increased. The concomitant higher demands and expectations provides strong internal momentum for deepening cooperation. At the same time, important changes have taken place in the SCO's development concept and strategy. The regulatory arrangements for economic cooperation have been put on the organization's priority agenda. The countries have realized the urgency to break the West's "barriers of rules" and facilitate the "channels of trade."

It is worth mentioning that the attitude of Russia and Uzbekistan toward the SCO's regional economic cooperation has shifted from negative to positive. Since the Ukraine crisis, the West has imposed economic sanctions against Russia and isolated Russia in the international community. As a result, Russia has since placed greater emphasis on its cooperation with the East, intensified its integration with Asia, and significantly changed its attitude toward regional economic cooperation among the SCO members from being indifferent to positive. Taking the SCO as a breakthrough, Russia has been trying to elevate its international influence while seeking conditions for domestic development. In Uzbekistan, under President Mirziyoyev's domestic and foreign policies characterized by openness, the country has also begun to adopt a supportive attitude toward the SCO's regional economic cooperation.

### **Enhanced potential of economic cooperation after expansion**

With the accession of India and Pakistan, the SCO has expanded its international influence, as well as its economic strength and potential. The

organization's geographical scope has now extended to South Asia, with a total area of nearly 34 million square kilometers, accounting for about 70% of the area of Eurasia. The total population of all member states has increased significantly to 3.1 billion, accounting for 44% of the world's total. The aggregate amount of the SCO members' GDP has exceeded \$15 trillion, approximately one fifth of global total.<sup>12</sup> At the same time, India and Pakistan are important countries in South Asia with great economic potential, and both enjoy close economic and trade ties with other SCO members. The accession of the two countries brings more options for promoting pragmatic cooperation within the SCO.

India and Pakistan's participation will help the SCO build an efficient and complete system of interconnectivity. After the enlargement, the SCO will not only be an important platform for the construction of the Silk Road Economic Belt, but will also connect the Maritime Silk Road and extend to the important ports of South Asia and the Indian Ocean, synergizing the two major markets of Asia and Europe.<sup>13</sup> The SCO will now cover the four major economic corridors along the Belt and Road, namely the China-Mongolia-Russia railway, the new Eurasian Land Bridge, the China-Central Asia-West Asia Economic Corridor, and the China-Pakistan Economic Corridor. This will help the effective implementation of network-based infrastructure projects in areas such as energy, communications and transportation, further promote the development of transport logistics projects with regional influence, and facilitate the construction of a complete and convenient regional interconnectivity network.

The momentum of multilateral economic and trade cooperation has improved thanks to the membership expansion. First, the SCO's economic cooperation areas have multiplied. Take India for example. As an emerging economy, the South Asian country boasts rapid economic growth, advanced information technology and pharmaceuticals, and a rich talent pool, but at the same time, it is a major energy importer. This will bring new blood

---

12 Zhang Jianrong, "SCO's First Expansion Significant," *Huanqiu*, June 9, 2017, <http://opinion.huanqiu.com/plrd/2017-06/10811223.html>.

13 "Chinese Minister of Commerce Talks about the Official Accession of India and Pakistan to SCO: Regional Economic Cooperation to Face Three Major Opportunities," *China News*, June 10, 2017, <http://www.chinanews.com/gj/2017/06-10/8246999.shtml>.

and new impetus to regional economic cooperation. Second, it is conducive to promoting regional trade and investment facilitation. India and Pakistan are both WTO members and to a certain extent can abide by the rules of trade and investment liberalization. Additionally, the China-Pakistan Free Trade Zone, which had been completed in 2007, will play an exemplary role in facilitating free trade within the SCO. Third, the number of financing platforms has increased. Cooperation between enterprises and localities will be more active and some major multilateral projects are expected to be implemented.<sup>14</sup>

### **Support from the Belt and Road Initiative**

Since the Belt and Road Initiative was put forward, early harvests in areas such as transportation, energy, finance, and production capacity have been achieved. These areas are also key areas of the SCO's regional economic cooperation, and to a certain extent promote the SCO cooperation to develop rapidly. The Belt and Road Forum for International Cooperation in May 2017, which identified the directions for implementing the Belt and Road Initiative in the coming period, will inject new impetus into the SCO's economic cooperation in the future and promote its trade facilitation. It will also accelerate infrastructure construction in the region, enhance the diversification of the member states' external economic ties, and further advance the process of regional integration. At the same time, the SCO is the main platform for the synergy of the Silk Road Economic Belt and the Eurasian Economic Union. The ongoing process of the synergy not only helps deepen the bilateral pragmatic cooperation between China and Russia, but also reinforces the SCO's momentum of sustainable development by driving the two countries' strategic cooperation within the SCO framework.

In addition, all of the SCO's observer countries and dialogue partners are developing countries. With an imbalanced industrial structure, a shortage of capital needed for development, and a relatively low level of infrastructure, they

---

14 Sun Zhuangzhi, et al., "Special Column: SCO's Membership Expansion and Economic Cooperation among Member States," *Russian Central Asian & East European Market*, No.5, 2017, pp.1-64.

urgently need to attract foreign investment to promote their respective national economic growth. The Belt and Road Initiative has provided rare opportunities for the expansion of the SCO's regional economic cooperation by focusing on cooperation in the areas of infrastructure, connectivity, production capacity, and creation of a financial platform.<sup>15</sup>

## Major Obstacles to SCO Economic Cooperation

Although the SCO's regional economic cooperation has made a series of achievements, some internal and external negative factors still hinder the in-depth development of economic cooperation. The accession of India and Pakistan, despite the above-mentioned boons, will also bring some difficulty to enhancing regional economic cooperation.

### **Trade facilitation of member states still lags behind**

While the SCO member states have reached consensus on promoting trade and investment facilitation and worked to solve the related problems in practice, various kinds of obstacles still exist in the four major areas of customs procedures, harmonization of standards, business flows, and regulatory environment.<sup>16</sup> Relevant policies vary among the member states. In terms of standards harmonization, member states in the Commonwealth of Independent States (CIS) have basically inherited the standards of the former Soviet Union and there are significant differences with China's technical standards. When Chinese companies enter the markets of Russia and Central Asian countries, they need to collect and translate relevant laws and standards, compare them, and adjust the indicators of their products accordingly. In terms of approval, logistics, customs clearance, and repatriation of funds, the requirements of various member states are also different. Every time a

---

15 "Deputy Minister of Commerce Qian Keming: Jointly Promoting SCO Regional Economic Cooperation," *Foreign Investment in China*, No.21, 2016, pp.22-23.

16 Gong Xinshu and Liu Qingyan, "Economic Cooperation Constraints Factor Analysis within the Framework of the Shanghai Cooperation Organization," *Journal of Chongqing Technology and Business University* (Social Science Edition), No.3, 2009, pp.23-27.

Chinese company enters a different country, it needs to repeat its work, which obviously takes time and effort.<sup>17</sup> The labor visa procedures in Russia and Central Asian countries are complex and time-consuming, which also hinders corporate investment and resolution of technical problems to some extent. In addition, in terms of business environment, the CIS countries are faced with multiple problems such as unitary economic structure, insufficient market economy system, outdated public services, low efficiency of government agencies, power rent-seeking, and bureaucratic corruption. These problems are still prominent and have a great negative impact on the implementation of investment cooperation. According to the Global Enabling Trade Report 2016 published by the World Economic Forum, of the SCO members, China ranked 61 out of 136 countries, while other SCO countries were ranked below 90.<sup>18</sup>

### **Differences in development levels and interests**

While all the members of the SCO are developing countries, there is a big gap in economic strength among different countries. In terms of GDP or the total trade volume, China and Russia are undeniably the “giants” of the organization, while the four Central Asian nations are left far behind. The unbalanced economic strength among member states has led countries to formulate regional cooperation plans that meet the needs of their own economic development and serve their own economic interests. With diverse contents and disparate objectives and demands, the inconsistency has negatively affected regional economic cooperation to some extent. Even between China and Russia, there are different opinions regarding the positioning, direction and approaches of SCO economic cooperation, which has gradually become a reverse pull for the organization’s vision of regional economic integration. The above two fundamental reasons have held back the economic cooperation among SCO members for more than a decade.

---

17 Zhang Ning, “The Probability Analysis of Founding Shanghai Cooperation Organization Free Trade Area,” *Journal of Liaoning University* (Philosophy and Social Sciences Edition), No.4, 2017, pp.140-148.

18 World Economic Forum, *The Global Enabling Trade Report 2016*, [http://www3.weforum.org/docs/WEF\\_GETR\\_2016\\_report.pdf](http://www3.weforum.org/docs/WEF_GETR_2016_report.pdf).

The willingness of the member states for regional economic cooperation is inconsistent with their actual practices, which leads to such phenomena as formalization of cooperation measures, preference for bilateral cooperation, and a project-based trend of cooperation.

### **Imbalance of economic cooperation areas**

All along, the SCO member states have tended to cooperate in resource-based industries and have implemented a number of bilateral and multilateral energy cooperation projects. Comparatively, there are fewer cooperation projects in non-resource fields such as agriculture, processing and manufacturing, and services. The unbalanced development of cooperation fields has constrained further expansion of regional economic cooperation, and therefore it is necessary to explore and nurture new growth points. At the same time, the economic restructuring of the member states has also placed new requirements for regional economic cooperation, including reducing resource-based cooperation and vigorously developing cooperation in non-resource areas and high-tech industries. Undoubtedly, with the efforts of all member states in recent years, the SCO has made substantial progress in non-resource cooperation, but it has not completely reversed the imbalance in economic cooperation fields. Further narrowing the gap between resource and non-resource will be a new task for SCO economic cooperation.

### **Multi-level mechanisms constrain regional economic cooperation**

Multiple sub-regional organizations or mechanisms coexist in the region covered by the SCO, such as the Eurasian Economic Union, the Commonwealth of Independent States, the Central Asian Cooperation Organization, the Eurasian Transport Corridor, the Turkic-Speaking States Summit, and the Central and West Asia Economic Cooperation Organization. Among them, the Russia-led Eurasian Economic Union, through its common external tariffs and industrial policies, has created an unusually complex situation and reduced, to a certain extent, the scope for deepening regional economic cooperation, with the process of institutionalization delayed and

promotion of cooperation made more difficult.<sup>19</sup> At the same time, the United States, the European Union and Japan have each put forward their economic cooperation programs in the region. For example, the US has successively proposed the Silk Road Strategy Act, the Greater Central Asia Project and the New Silk Road Initiative. The EU has adopted the Strategy for a New Partnership with Central Asia, actively carrying out cooperation in areas of economy and trade, education, investment, environmental protection, and water resources. As for Japan, the “Central Asia + Japan” mechanism that was launched in 2004 has so far operated well, and has strengthened Japan’s influence in Central Asia through substantial assistance and investment. The above-mentioned plans and mechanisms have exerted pressure on the SCO’s regional economic cooperation to some extent, resulting in competition and distracting the attention of Kazakhstan, Kyrgyzstan and Tajikistan on SCO economic cooperation.

### **Challenges from expanded membership**

First, the expansion of the SCO’s membership has made it more difficult for member states to reach unanimous agreement. The conflicts among Central Asian countries and the disparity between their appeals have resulted in persistent delay of economic and trade initiatives such as launching the feasibility study of the SCO free trade zone and establishing the SCO financing mechanism. The accession of India and Pakistan will further complicate the organization’s structure of interests and increase the difficulty of consultation. Second, the SCO’s original twin-engine landscape of China and Russia now faces challenges. The SCO’s regional economic cooperation had long been led by China and Russia. With India’s accession, a new three-pillar structure might emerge. Although Russian President Putin stated that Russia has a special strategic partnership with India, the Indian government often looks westward on major international

---

19 Wang Zhiyuan and Shi Lan, “Analysis of Main Obstacle and Strategy in Economic Cooperation in Shanghai Cooperation Organization,” *Journal of Xinjiang Normal University* (Edition of Philosophy and Social Sciences), No.6, 2013, pp.44-50.

issues. Particularly, India's negative attitude toward China's Belt and Road Initiative and high-level alertness to China-Pakistan relations may have some influence on China-Russia coordination in the SCO's regional economic cooperation.

## **Approaches to SCO Economic Cooperation**

The SCO has entered a new development stage. Deepening practical cooperation is not only in line with the current cooperation needs of SCO member states, but also helps reinforce the consensus of all parties involved in regional economic integration and enhance the SCO's influence. The SCO should uphold the principles of mutual benefits, win-win outcomes and peaceful cooperation, and unswervingly promote practical cooperation to push the broader regional economic cooperation to a deeper level.

### **Promoting regional economic and trade arrangements**

The SCO Economic and Trade Ministers' Meeting should encourage member states to negotiate an SCO trade facilitation agreement and sign it as soon as possible. Utilizing the condition that nearly all members of the SCO are WTO members, the meeting should actively implement the WTO Agreement on Trade Facilitation, and ensure the effective materialization of convenient measures on customs clearance, inspection and quarantine, logistics transportation, standard certification, and payment and settlement. Through the trade facilitation arrangements across the SCO region, the free flow of commodities, capital, services and technologies could be gradually realized. Given the overall passive attitude toward promoting the establishment of an SCO free trade zone, as well as some member states' concern that the subsequent opening-up of market might have a major impact on their domestic economies and industries, joint feasibility study on this issue can continue in parallel with trade facilitation efforts and enhancing the sense of gains among all parties. At the same time, communication among member states, including India and Pakistan, should be strengthened to

expand consensus.

### **Enhancing regional investment through consultation**

China should implement as soon as possible the bilateral agreements it entered on avoiding double taxation and facilitate the signing of intergovernmental agreements on bilateral investment protection, judicial assistance and social insurance with more Central Asian countries. The SCO Working Group on Investment Promotion should play a coordinating role to avoid protectionism related to cross-border investment in the region, and do its best to promote the elimination of investment barriers, lower investment access standards, and improve the investment facilitation level. Within the SCO framework, an investment project database should be established to solve the problems encountered in the process more efficiently. In addition, investment in infrastructure, capacity cooperation, agriculture, and high-tech fields should be increased in the coming period to inject new impetus into the expansion of regional economic cooperation.

### **Building a diverse yet coordinated investment and financing system**

To achieve this, the first task to coordinate all kinds of investment and financing mechanisms within the SCO framework, gradually establish a diversified investment and financing support system in line with regional characteristics, and especially strengthen the role of such platforms as the China-Eurasia Economic Cooperation Fund, the Silk Road Fund, and the Asian Infrastructure Investment Bank (AIIB). The SCO Interbank Consortium should be given full play so that it can carry out policies consistent with different national conditions, set warranty conditions more flexibly, and steadily expand the financing scale by China's policy and commercial banks in the SCO region. The second is to innovate the utilization of funds, integrate investment and loans, and motivate commercial investment institutions and private capital to go global and serve the diversified financing needs of Chinese companies in opening up regional markets. The third is to improve the regional financial information disclosure

system, enhance the exchange and sharing of financial information, establish a credit assessment mechanism,<sup>20</sup> and explore the establishment of regional financial risk prevention mechanisms. The fourth is to further expand the cross-border currency services, including local currency account settlement, domestic renminbi transfer and settlement, the renminbi-denominated clearing channel, and a direct exchange rate mechanism between the renminbi and Central Asian countries' currencies. All this serves to establish a unified network of payment and settlement in a gradual manner.<sup>21</sup>

### **Innovating cooperation patterns and expanding cooperation areas**

The SCO's regional cooperation patterns should be diversified, for example by establishing economic and trade cooperation zones, to promote economic exchanges among the SCO members, observer states and dialogue partners. Second, while continuing to deepen resource-based cooperation, countries should enhance cooperation in agriculture, infrastructure, environmental protection, e-commerce, disaster prevention and relief, and other non-resource fields, to achieve balance in cooperation areas. Among them, priority should be given to agricultural trade and planting. Key projects in agricultural cooperation and specific cooperation patterns can be defined according to needs of member states, and demonstration zones for overseas agricultural cooperation can be established according to different local conditions. Third, cooperation among SMEs should be actively promoted. An SME cooperation forum can be held on a regular basis to build a platform for exchanges and cooperation among SMEs of the SCO member states. At the same time, the SCO Committee of Industrialists and the SCO Interbank Consortium should fully play their roles in exploring projects, broadening financing channels, promoting close cooperation among SMEs, and stimulating market vitality and innovation capability of the member states.

---

20 Xu Qiyuan, "Promoting Economic and Financial Cooperation under the SCO Framework," *China National Conditions and Strength*, No.5, 2014, pp.69-71.

21 Han Lu, "The Silk Road Economic Belt in Central Asia: Achievements and Prospects," *International Studies*, No.3, 2017, pp.108-124.

## **Accelerating interconnectivity construction**

By fully utilizing the AIIB, the Silk Road Fund and the China-Eurasia Economic Cooperation Fund, and strengthening communication and coordination among relevant countries, transport infrastructure projects aimed at achieving interconnectivity, including China-Kyrgyzstan-Uzbekistan, China-Kazakhstan, and China-Tajikistan-Afghanistan-Iran corridors, can be advanced to improve the transportation network between China and Central Asian countries. Cooperation can further expand to electricity, communications and other areas related to people's livelihood. At the same time, problems such as poor transport connections, low efficiency, and waste of human, material and financial resources, which results from the inconsistency of technical standards between China and Central Asian countries, should be resolved in a timely manner. It is necessary to strengthen consultation and communication with relevant transport agencies in Central Asian countries in the joint effort to enhance transport efficiency by adopting advanced, applicable and uniform technologies as far as possible and improve transportation equipment.<sup>22</sup>

## **Creating cooperation growth points with new members' appeals**

India and Pakistan have been actively seeking diversified and stable energy supply channels and hope to participate in oil and gas development in Russia and Central Asia.<sup>23</sup> Meanwhile, both India's information and pharmaceutical industries and Pakistan's textile industry enjoy international competitiveness. Taking advantage of the energy demands of the two countries, the SCO member states can further expand cooperation in the field of resources and drive the growth of regional trade. The advantageous industries of the two countries can serve to strengthen cooperation among the member states in information technology, light industry, processing and manufacturing, e-commerce and SMEs, thus expanding the space for regional economic cooperation. 

---

22 Han Lu, "The Silk Road Economic Belt in Central Asia: Achievements and Prospects."

23 Sun Zhuangzhi, et al., "Special Column: SCO's Membership Expansion and Economic Cooperation among Member States."