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The Results of the 20-Year Economic Cooperation of the Shanghai Cooperation Organization and its Development Prospects

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ABSTRACT

The Shanghai Cooperation Organization is generally considered a security organization. But many of its member countries are in favor of strengthening cooperation in the economic field, and a whole series of decisions on economic cooperation was adopted on their proposal. The **purpose** of the article is to summarize the results, positive experiences and negative lessons of economic cooperation over the past 20 years in the field of trade, investment and finance within the framework of the SCO and to look into the future. In this direction of research based on the dialectic of materialism, the article uses positive and normative economic analysis, the paradigm of institutionalism, statistical and other **methods**. Asserting that economic cooperation for the sake of common prosperity and the building of a "Community of Economic Interests" is an essential component of the "Community of the Common Destiny of Mankind", and that the SCO is an essential platform for the joint coordination and promotion of the concept of "One Belt and One Road" and the common distribution of their fruits, and for the promotion of mutually beneficial economic cooperation. The article **concludes** that, on this platform, the Chinese and Russian initiatives "One Belt and One Road" and "Greater Eurasian Partnership" work closely together to develop infrastructure interconnections, trade facilitation and regional economic integration, resulting in the formation of the Eurasian Economic Partnership for the sake of common prosperity in the SCO region. The article also shows the challenges and difficulties that the SCO faces in its development.

Keywords: SCO; economic cooperation; One Belt and One Road; Great Eurasian Partnership

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INTRODUCTION

Since its inception, the SCO has emphasized that "the development of economic relations is a very important task in the work of the SCO"[1] and has explicitly included in ***the Charter of Shanghai Cooperation Organization*** the long-term goal of SCO economic cooperation "to promote trade and investment facilitation with a view to gradually achieve the free flow of goods, capital, services, and technology".[2] In 2009, the Heads of Government of the SCO member states issued ***the Joint Initiative of the SCO Member States on Strengthening Multilateral Economic Cooperation, Addressing the Global Financial and Economic Crisis and Ensuring Sustainable Economic Development***, and the SCO economic cooperation entered a phase of quality improvement and upgrading, extending the areas of cooperation to finance. In September 2019, a new version of ***the Multilateral Economic and Trade Cooperation Programme*** for 2035 was formulated and adopted at the meeting of the Ministers of Economy and Trade of SCO member states, launching a new journey of economic cooperation and setting new basic goals [1].

In order to successfully achieve the tasks and objectives of political, security, and economic cooperation set out in ***the Declaration on the Establishment of the Shanghai Cooperation Organisation*** and ***the Charter of the Shanghai Cooperation Organisation***, the SCO completed the framework of its institutional structure

[1] Declaration of Heads of Government of the SCO Member States (7 June 2002), Shanghai Cooperation Organization Secretariat. URL: http://chn.sectsco.org/documents/ (accessed on 02.04.2021).

[2] Charter of the Shanghai Cooperation Organization (7 June 2002), Shanghai Cooperation Organization Secretariat. URL: http://chn.sectsco.org/documents/ (accessed on 02.04.2021).

in the initial years. In the field of economic cooperation, the SCO Industrialists Committee, the CUP, the Regional Economic Cooperation Website, and the Energy Club have been established, and the aspiration to establish an SCO Development Bank, a Development Fund, and a Special Account has also been raised. China has established relatively comprehensive cooperation mechanisms with the SCO, such as the China-SCO International Exchange and Training Base for Judicial Cooperation and the China-SCO Legal Services Committee (Shanghai University of Political Science and Law), the China-SCO Local Economic and Trade Cooperation Demonstration Zone (Qingdao), and the China-SCO Agricultural Technology Exchange and Training Demonstration Base (Yangling, Shanxi). In addition, China has unilaterally funded economic cooperation promotion funds and preferential loan facilities, such as the China-Eurasia Economic Cooperation Fund. SCO member states also share directly in the financing schemes of financial institutions such as the Silk Road Fund, the BRICS New Development Bank, and the Asian Infrastructure Investment Bank [2].

SCO ECONOMIC AND TRADE COOPERATION HAS MADE GREAT STRIDES

On the basis of the above-mentioned institutional development, driven by the common will of the member states to strengthen economic cooperation and promote shared economic development and prosperity, as well as the joint efforts of the governments of the member states and the promotion of various mechanisms, the mutual economic cooperation among the SCO member states has achieved fruitful results in the fields of trade, investment, and finance. The total economic volume of the SCO was only US$ 1.5 trillion in 2000 before its establishment, doubled to US$ 3 trillion in 2005, doubled again to US$ 7.8 trillion in 2010, doubled again to US$ 17 trillion in 2017, and approached US$ 20 trillion in 2019. The SCO economy volume has increased 13 times in 20 years. The total foreign trade of the SCO member states, which was less than US$ 650 billion in 2000, surpassed US$ 1 trillion in 2003 and again surpassed US$ 3 trillion in 2010, reaching US$ 6.6 trillion in 2019, a tenfold increase in 20 years.[3] Total foreign direct investment attracted by these countries rose rapidly from less than US$ 50 billion to US$ 231.56 billion in 2019, reaching nearly five times the level in 2000. We know that most of the SCO member states are transition economies and developing countries, lacking the adequate financial resources needed to promote economic development. However, since the establishment of the SCO, their capital has also started to "go out". Their total outward FDI was only US$ 4 billion in 2000 and was done mainly by Russia (US$ 3 billion) and China (US$ 900 million), surpassing US$ 10 billion in 2003, quickly surpassing US$ 100 billion in 2008 and US$ 200 billion in 2016. As a result of the Trump administration's disengagement from globalization, unilateralism and the wielding of the "trade war" and sanctions stick against the world, outward investment from SCO member states has been on a downward trend, falling back to 2012 and 2013 levels of less than $ 150 billion in 2019.[4]

Rapid Rise in the Scale of Mutual Trade between Member Countries

Mutual trade is a key element of SCO's economic cooperation. China's rapid economic development over 40 years of reform and opening up has made it the second largest economy in the world and has created a unique manufacturing capacity, making it a veritable "world factory". Other member states have benefited from their abundant energy and raw materials, hooking themselves up to the "Orient Express" and complementing each other's strengths, despite the secrecy of some countries about their dependence on energy and raw material exports. Since the establishment of the SCO, the scale of mutual trade between member states has risen considerably, as shown in *Figure 1* [3].

In 2000, the year before the establishment of the SCO, the total mutual trade among the six member states was only US$ 30.33 billion, as shown in *Table 1*. According to the international trade balance theory, the principle that the total imports of the six member states are equal to their total exports, the net trade value was only US$ 15.16 billion. Of these, Russia's trade with other SCO member states was US$ 12.86 billion, China's US$ 8.97 billion and Kazakhstan's US$ 560 million, and their shares of mutual trade in the SCO were 42.4%, 29.6%, and 18.4% respectively,

[3] World bank, Data [DB/OL]. URL: https://data.worldbank.org.cn/country (accessed on 02.04.2021).

[4] United Nations conference on Trade and Development. UNCTADSTAT [DB/OL]. URL: https://unctadstat.unctad.org/EN/BulkDownload.html (accessed on 02.04.2021).

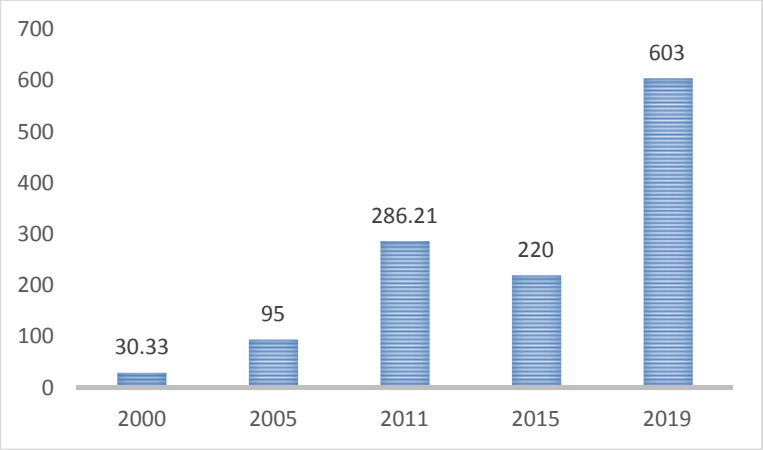

Fig. 1. **Dynamics of the volume of mutual trade between the SCO member states. Billion US dollars**

Source: UN Comtrade Database. URL: https://comtrade.un.org (accessed on 02.04.2021).

with Uzbekistan, Kyrgyzstan, and Tajikistan totaling less than US$ 300 million, or less than 10%.

The total mutual trade of the six member states reached US$ 219.53 billion in 2015, more than seven times the level in 2000, and net trade also exceeded US$ 100 billion. As shown in *Table 2*, trade between member countries and other SCO member states rose significantly, with China rising as much as 8.6 times to US$ 86.67 billion and its share of trade rising by almost 10 percentage points to 39.5% from 2000. Russia's trade rose 5.4 times to US$ 82.99 billion, with its share of trade falling from 42.4% to 37.8%. Kazakhstan's trade volume rose 4.7 times to US$ 31.77 billion, with its share of trade declining from 18.4% to 14.5%. The total trade volume of the other three countries also increased fourfold to US$ 14.65 billion, with the share of trade decreasing from nearly 10% to 6.6%.

India and Pakistan officially joined the SCO in 2017, increasing the number of member states from six to eight, and accordingly, the scale of mutual trade among SCO member states has further expanded. Taking the data for 2019 as an example, as shown in *Table 3*, the total mutual trade of the eight member states reached US$ 602.94 billion, reaching nearly 20 times that of 2000, and the net value of trade also reached US$ 301.47 billion. As shown in *Table 3,* the scale of trade between member countries and other SCO member states rose further, with China's trade scale exceeding 28 times that of 2000 to US$ 252.75 billion and its trade share rising by a further 2.4 percentage points to 41.9%. Russia's trade volume exceeded 11 times that of 2000 to US$ 145.96 billion, with its share of trade falling further to 24.2%, nearly half that of 2000. Kazakhstan's trade also rose to 8.5 times its 2000 size to US$ 47.26 billion, with its trade share halving again to just 7.8% from 2015. The total trade volume of Uzbekistan, Kyrgyzstan, and Tajikistan also expanded to 10.7 times its 2000 size to $ 31.3 billion, with the trade share dropping slightly by 1.4 percentage points from 2015. The results show that only China's share of mutual trade increased among the original six SCO countries, while the other five countries all experienced declines of varying degrees. This is mainly due to the entry of India and Pakistan crowding out the trade of these member states. India's share of trade in the SCO reached 17.5% in 2019, right up there with Russia. Pakistan's trade share of 3.3% is also significantly larger than that of Uzbekistan, Kyrgyzstan, and Tajikistan [4].

Figure 2 shows that after the establishment of the SCO in 2001, the scale of trade between China and SCO member states rose rapidly in a ladder. the first ladder trade grew at a high rate from 2001 to 2008, with an average annual growth rate of 31.8%, including a growth rate of nearly 50% in 2007. Trade increased from US$ 12 billion to US$ 86.9 billion, a 6.2-fold increase. However, the second eight years were strongly influenced by external shocks, with an average annual growth rate of only 3.6%. After falling to US$ 61.54 billion in 2009 as a result of the global financial crisis, trade quickly resumed rapid growth, doubling again to US$ 129.82 billion in 2014. The impact of the Ukraine crisis and Western sanctions against Russia led to a decline of almost 30% in 2015 and a slight increase of 1.9% in 2016. During this period, trade exceeded US$ 100 billion in 2011, the 10th anniversary of the SCO, 11.6 times more than in 2000. With the accession of India and Pakistan, China's trade with SCO member states more than doubled in 2017 from 2016 to $ 217.6 billion. It grew steadily by 17.2% to $ 255 billion in 2018. With the world financial crisis and global recession looming, this indicator grew marginally

Table 1

The volume of mutual trade turnover between the SCO member states in 2000, million US dollars

		Import						Total exports
		China	Russia	Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	
Export	China	/	2 233	599	39	110	7	2 988
	Russia	5 248	/	2 247	274	103	56	7 928
	Kazakhstan	672	1 710	/	133	57	53	2 626
	Uzbekistan	12	663	70	/	74	185	1 006
	Kyrgyzstan	44	65	33	89	/	7	239
	Tajikistan	10	259	6	98	3	/	375
Total imports		6	4 931	2 956	634	347	0.3	15 163
Consolidated trade turnover with other SCO member states		8 975	12 859	5 582	1 640	587	683	30 327
Specific gravity, %		29.6	42.4	18.4	5.5	1.9	2.2	100

Source: UN Comtrade Database. URL: https://comtrade.un.org (accessed on 02.04.2021).

by 1.5% in 2019, but still reached 26.5 times the level 20 years ago in 2000, before the establishment of the SCO. China became the first or second largest trading partner of most SCO member states [5].

Significant Increase in Reciprocal Investments

Most of the SCO member states are developing countries and countries with economies in transition, and attracting foreign investment to address the financial and technological gaps in domestic socio-economic development is a common task for them [6]. *Figure 3* shows that since the establishment of the SCO, the capacity and scale of foreign investment has increased significantly, with China, Russia, and India, in particular, becoming the main attractors of foreign investment to the SCO member states. With the rapid expansion of the SCO economy, capital began to "go global" in search of more favorable investment locations, and outward investment from member states increased rapidly, as shown in *Figure 4*. The total outward investment from 2001 to 2008 was US$ 176.4 billion. China's outward investment expanded rapidly from 2008 onwards, with a cumulative outward investment of US$ 1,410 billion over the 20-year period from 2000–2018. Led by China and Russia, total outward investment from the SCO historically exceeded US$ 200 billion in 2016, before gradually falling back to US$ 150 billion in 2019 due to the changing world economic situation.

Mutual investment among SCO member states is also climbing rapidly. However, as mentioned earlier, most of the SCO member states are developing countries, and those with outward investment capacity are mainly China, Russia, India, and Kazakhstan, the four countries with the largest economies [7]. Since the establishment of the SCO, Chinese direct investment in SCO member states has increased rapidly. In terms of flows, net investment increased from less than US$ 100 million at the beginning of the SCO to US$ 1 billion in 2008, and reached record levels of US$ 4.13 and US$ 4.73 billion in 2012 and 2017 respectively[5]. Figure 5 shows that China's investment stock in other SCO member states correspondingly increased from less than US$ 100 million at the start of the organization to US$ 5 billion in 2010 and US$ 37.5 billion in 2018, before declining slightly to US$ 35.2 billion in 2019. In particular, Chinese investment in the region has increased rapidly with the "Belt and Road" cooperation project [8]. By the end of 2018, China's investment in SCO member countries totaled more than US$ 86.2 billion, covering many fields such as agriculture, manufacturing and infrastructure[6]. The total scale of construction works contracted by

[5] Report on Development of Chian's Outward Investment. URL: http://fec.mofcom.gov.cn/article/tzhzcj/tzhz/ (accessed on 27.05.2019).

[6] Accumulated investments from China to the SCO member states exceeded 86.2 billion US dollars [OL]. URL: https://www.investgo.cn/article/yw/zctz/201905/450901.html (accessed on 27.05.2019).

Table 2

The volume of mutual trade turnover between the SCO member states in 2015, million US dollars

		Import						Total exports
		China	Russia	Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	
Export	China	/	34757	8441	2229	4282	1795	51504
	Russia	28335	/	10302	2221	1289	759	42906
	Kazakhstan	5480	4547	/	942	518	418	11906
	Uzbekistan	1267	576	726	/	59	5	2633
	Kyrgyzstan	36	157	228	95	/	24	540
	Tajikistan	52	46	165	6	8	/	277
Total imports		35170	40083	19861	5494	6157	3002	109767
Consolidated trade turnover with other SCO member states		86674	82989	31767	8127	6697	3279	219534
Specific gravity, %		39.5	37.8	14.5	3.7	3.0	1.5	100

Source: UN Comtrade Database. URL: https://comtrade.un.org (accessed on 02.04.2021).

Table 3

The volume of mutual trade turnover between the SCO member states in 2019, million US dollars

		Import								Total exports
		China	Russia	Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	India	Pakistan	
Export	China	/	49484	12807	5044	6312	1612	74924	16183	166368
	Russia	57321	/	14287	3908	1559	953	7308	169	85506
	Kazakhstan	7823	5602	/	1981	604	653	1573	2	18239
	Uzbekistan	1763	2035	1206	/	634	190	10	94	5931
	Kyrgyzstan	81	281	347	139	/	57	3	2	911
	Tajikistan	84	37	103	144	10	/	0.3	0.1	380
	India	17279	2871	194	193	29	25	/	1186	21777
	Pakistan	2037	141	83	22	2	8	66	/	2360
Total imports		86389	60452	29027	11433	9152	3498	83885	17636	301472
Consolidated trade turnover with other SCO member states		252757	145958	47265	17365	10062	3878	105662	19996	602945
Specific gravity, %		41.9	24.2	7.8	2.9	1.7	0.7	17.5	3.3	100

Source: UN Comtrade Database. URL: https://comtrade.un.org (accessed on 02.04.2021).

Chinese companies in the region's countries increased from less than US$ 300 million in 2001 to US$ 3.81 billion in 2010 alone, and reached US$ 19 billion in 2017 and 2018, before declining slightly to US$ 18.35 billion in 2019.[7]

Although the other SCO member states have smaller economies relative to China and are short of capital, they are also actively investing in China [9]. As shown in *Figure 6*, China actually utilized US$ 30.8 million in direct investment from SCO member states in 2001, of which Russia accounted for US$ 29.76 million, or 96.6%. 2004 saw a three-fold jump to US$ 130 million. the direct investment brought in by India after India and Pakistan joined the SCO in 2017 brought SCO direct investment in China to a record level of nearly US$ 200 million. 20 In total, China has actually utilized US$ 1.33 billion of direct investment from SCO member states over the past 20 years. Russia and India dominate

[7] National Bureau of Statistics. URL: http://data.stats.gov.cn/easyquery.htm?cn=C01 (accessed on 27.05.2019).

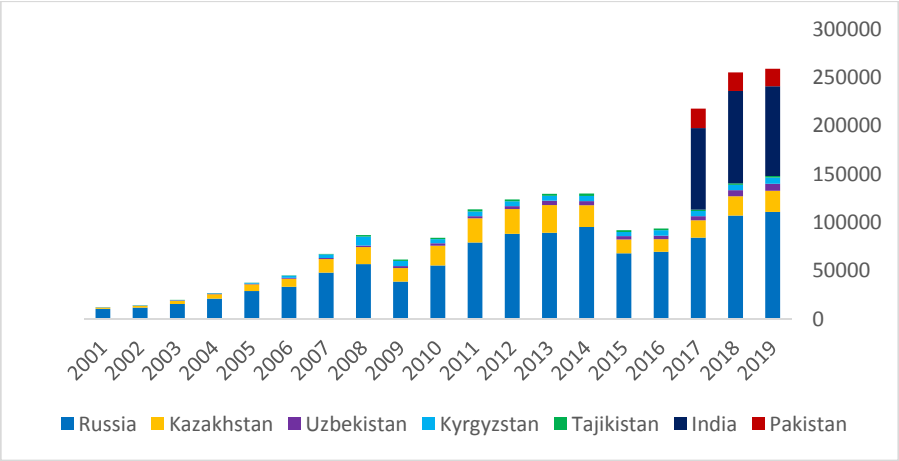

Fig. 2. **Dynamics of China's trade turnover with the SCO member states. Million US dollars**

Source: National Bureau of Statistics. URL: http://data.stats.gov.cn/easyquery.htm?cn=C 01 (accessed on 02.04.2021).

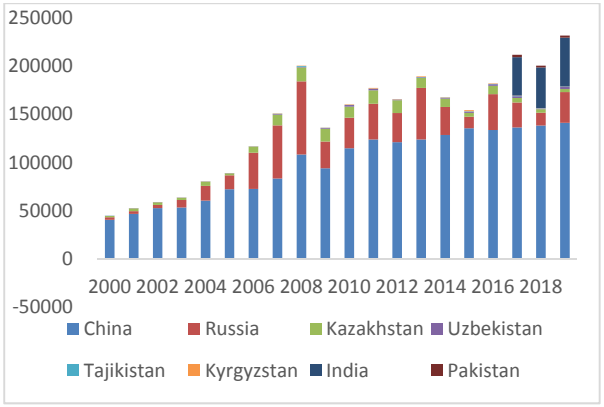

Fig. 3. **Dynamics of the volume of attracted FDI, million US dollars**

Source: United Nations conference on Trade and Development. UNCTADSTAT[DB/OL]. URL: https://unctadstat.unctad.org/EN/BulkDownload.htm (accessed on 02.04.2021).

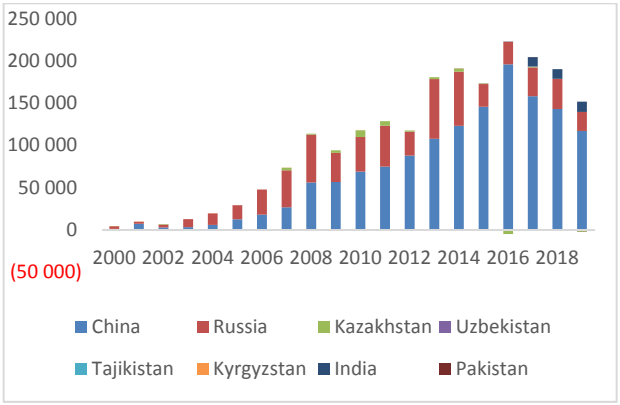

Fig. 4. **Dynamics of direct investment from the SCO member states abroad. Million US dollars**

Source: United Nations conference on Trade and Development. UNCTADSTAT[DB/OL]. URL: https://unctadstat.unctad.org/EN/BulkDownload.html (accessed on 02.04.2021).

direct investment in China, but Indian investment in China declined significantly after 2018, from US$ 150 million in 2017 to US$ 25 million in 2019. Figure 7 shows that the annual stock of Russian investment in SCO member states has remained at an annual average of around US$ 4 billion, and that the main target countries for investment are the Central Asian countries in its traditional sphere of influence, with Kazakhstan in particular accounting for around 70% of total Russian investment in SCO member states [10].

India's direct investment in SCO member states is mainly in Russia, in addition to China. In particular, India's interest in energy in Russia and Central Asia has grown in recent years, and in view of this India's direct investment flows to Russia have reached an annual average of US$ 10 million since joining the SCO, with the stock of Indian direct investment in Russia reaching US$ 710 million by the end of 2019. India's energy investments in Central Asia have also started to grow from scratch, increasing year on year [11].

Increasingly close financial cooperation

Following the outbreak of the global financial crisis in 2008, the SCO Heads of Government Meeting issued the Joint Initiative of the SCO Member States on Strengthening Multilateral Economic Cooperation, Responding to the Global Financial and Economic Crisis and Ensuring Sustainable Economic Development, marking the expansion of SCO economic cooperation into the financial sector [4].

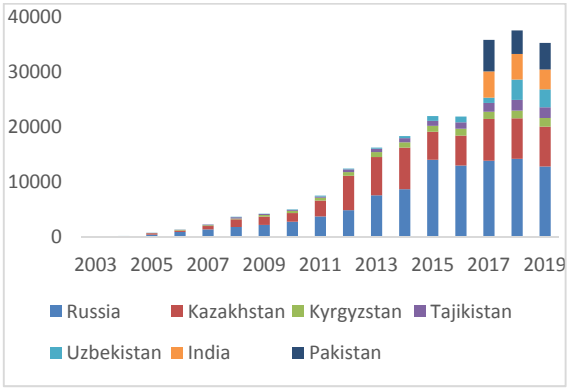

Fig. 5. **Dynamics stock of direct investment from China to the SCO member states. Million US dollars**

Source: National Bureau of Statistics. URL: http://data.stats.gov.cn/easyquery.htm?cn=C 01 (accessed on 02.04.2021).

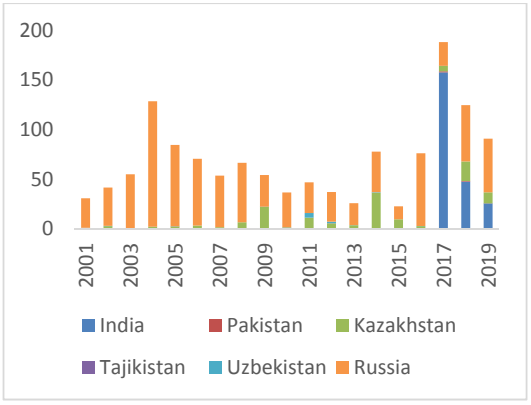

Fig. 6. **Dynamics of actually used by China direct investments from the SCO member states. Million US dollars**

Source: National Bureau of Statistics. URL: http://data.stats.gov.cn/easyquery.htm?cn=C 01 (accessed on 02.04.2021).

In 2011, the Prime Ministers of the SCO member states called for the establishment of a special account and development bank as soon as possible, in addition to the establishment of the Union of Banks in 2005, as a mechanism for financing project cooperation within the SCO framework. In 2012, the SCO Heads of Government called for "deepening financial cooperation" and "studying the holding of meetings between finance ministers and bank governors". The subsequent meeting of SCO finance ministers and bank governors issued the ***Joint Statement*** on the global financial crisis and financial cooperation, which called for "expanding the scope of local currency settlement among member states"[8]. In 2014 the Council of the Union signed the ***Plan of Measures on Strengthening Financial Cooperation and Promoting Regional Development***. The use of local currency settlements in the field of trade and investment is being actively explored within the SCO framework, and the member states are preparing a roadmap to complete the transition to local currency settlements and gradually form a new system of mutual settlements among SCO member states, said SCO Secretary General Vladimir Norov in 2019[9].

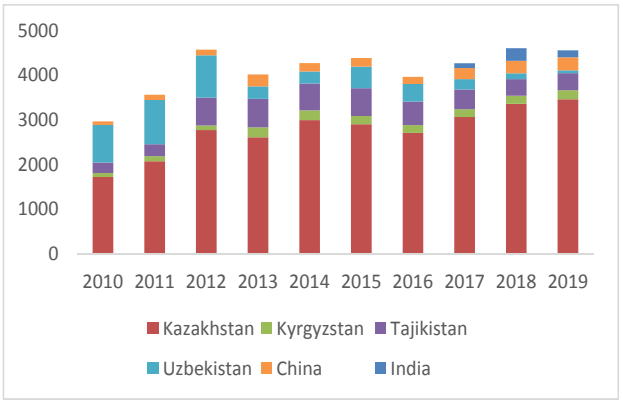

Fig. 7. **Dynamics of direct investment from Russia to the SCO member states. Million US dollars**

Source: Bank of Russia. URL: https://cbr.ru/statistics/macro_itm/svs/ (accessed on 02.04.2021).

After the financial crisis, China took the initiative to actively promote and expand the scale of currency swaps and local currency settlements with SCO member countries. In 2011, the central banks of Russia, China, and Kazakhstan signed new bilateral local currency settlement agreements respectively, extending local currency settlement from border trade to general trade and expanding the geographical scope. In 2014, bilateral local currency swap agreements of RMB 150 billion and RMB 7 billion were renewed between China and Russia and China and Kazakhstan respectively. In 2015, the Governor of the Central Bank of China and Russia signed the ***Memorandum of Understanding on Cooperation between the People's Bank of China and the Central Bank of the***

[8] Joint Communiqué of the Meeting of the Council of Heads of Government (Prime Ministers) of the Member States of the Shanghai Cooperation Organization [EB/OL]. URL: http://chn.sectsco.org/documents/. (accessed on 05.12.2012) (In Chinese).

[9] SCO Secretary General: The SCO member states will plan a roadmap for settlement in national currencies and the construction of 212 logistics centers [OL]. 21st Century Business Herald. URL: http://static.nfapp.southcn.com/content/201907/05/c2394821.html?group_id=1 (accessed on 07.06.2019).

Russian Federation, and in 2016, the two sides signed a memorandum of cooperation on the establishment of RMB clearing arrangements in Russia, which greatly promoted the use of RMB for cross-border transactions by enterprises and financial institutions of both countries, as well as bilateral trade and investment facilitation [12]. As of 2016, the scale of bilateral local currency swaps between China and SCO member countries had reached RMB 160 billion. In July 2018, Kazakhstan's PetroChina (Aktibin) Oil and Gas Company Limited and Xinjiang Alashankou Hanlin Trading Company Limited achieved a settlement of 26,600 tones of Sulphur imports worth RMB 4,262,400. In 2019, the central banks of China and Russia signed a transition to a government-to-government agreement on local currency settlement, which will increase the proportion of local currency settlement in bilateral trade from the current 10% to 50%. At the same time, the two sides are planning to establish a payment gateway, or international payment system, between the Chinese Cross-Border Interbank Payment System (CIPS) and the Russian Financial Information Transfer System (SPFS), gradually replacing the US SWIFT system [13]. Russia has also significantly increased the share of the RMB in its foreign exchange reserves. This share jumped from 5% to 15% from 2015 to early 2019. As of 30 June 2019, the RMB share was 13.2%[10].

China has unilaterally provided preferential loans to SCO member states. In the first decade of the SCO, China has pledged to provide more than US$ 12 billion in preferential loans to other member states, and in 2012 Hu Jintao announced that China has decided to provide another US$ 10 billion in loans to other member states. In 2014 and 2018, President Xi Jinping announced twice that China has decided to provide US$ 5 billion in loans to SCO member states and to launch the China-Eurasia Economic Cooperation Fund with an eventual size of US$ 5 billion, and to establish a special loan of RMB 30 billion equivalent within the framework of the SCO CUP. From 2007 to 2019, Russian companies and financial institutions other than banks received loans from China totaling US$ 79.62 billion, especially in the three years of 2009 when Russia was hit by the global financial crisis and 2014 and 2015 when it was subjected to full Western sanctions due to the Ukraine crisis, when an annual average of US$ 17 billion was provided[11]. In terms of Kazakhstan's debt to China, total debt as at 1 October 2020 totaled US$ 10.31 billion, of which US$ 1.23 billion was to banks and US$ 5.85 billion to other sector enterprises, with a further US$ 3.22 billion in intercompany debt[12]. The balance of loans provided by China Exim Bank to Tajikistan as at year-end 2018 was US$ 1.2 billion, representing 64% of Tajikistan's total external bilateral borrowings[13]. As of June 2018, China's national development central bank had disbursed a cumulative total of over US$ 100 billion in loans to SCO member countries, with a current loan balance of US$ 41.34 billion and RMB 16.37 billion in SCO member countries. In addition, since 2001, China Credit Insurance has supported Chinese enterprises to export and invest more than US$ 179.64 billion to other SCO member countries, paying out nearly US$ 358 million in compensation and underwriting 420 projects [14].

NEW OPPORTUNITIES FOR SCO ECONOMIC COOPERATION: BUILDING A EURASIAN ECONOMIC PARTNERSHIP

On the occasion of the 20th anniversary of the SCO, the Chinese President has given it the solemn mission of taking the lead in building a "Community of human destiny" and Russian President Vladimir Putin has given it the new mission of "Greater Eurasian Partnership", and the leaders of China and Russia also see the SCO as the most important platform for consultation, contribution and shared benefits for the "Belt and Road". In 2019, the SCO member states signed a new version of the ***Multilateral Economic and Trade Cooperation Programme*** for 2035, starting a new journey of economic cooperation.

Chinese Leaders' Initiative to Build a Community of Human Destiny at SCO

The 18th National Congress of the Communist Party of China (CPC) officially declared to the world that we should advocate a sense of community of human destiny. In 2018, the SCO formally established the concept of building a community of human destiny,

[10] Hu Xiaoguang, Russian expert: the internationalization of the renminbi in Russia will continue. URL: http://www.chinatradenews.com.cn/content/202011/20/c121658.html. (accessed on 20.11.2020).

[11] Bank of Russia. URL: http://cbr.ru/statistics/macro_itm/svs/ (accessed on 24.02.2020).

[12] National Bank of Kazakhstan. URL: https://www.nationalbank.kz/ru/news/vneshniy-dolg (accessed on 24.02.2020).

[13] Ministry of Finance of the Republic of Tajikistan, State Debt Report for 2018 [EB/OL]. URL: http://minfin.tj/downloads/otchet_2018vd.pdf. (accessed on 24.02.2020).

promoting the building of a new type of international relations based on mutual respect, fairness, justice, and win-win cooperation, and establishing the common concept of building a community of human destiny [15]. The concept of a community of human destiny calls for developing an open world economy, sharing opportunities and benefits and achieving mutual benefits in the process of opening up; developing global connectivity so that all countries in the world can achieve linked growth and common prosperity; developing global free trade and investment, promoting trade and investment liberalization and facilitation in the process of opening up, and standing out against protectionism, and promote economic globalization in a more open, inclusive, balanced and win-win direction. The idea of a community of human destiny in economic cooperation is fully reflected in the "Shanghai Spirit" practiced by the SCO, and in particular in the purposes and principles of ***the Declaration on the Establishment of the Shanghai Cooperation Organization*** and ***the SCO Charter*** [16].

SCO is an Important Platform for Strategic Alignment and Cooperation between the Belt and Road and its Member States

In 2013, Premier Li Keqiang made it clear for the first time that all member states are on the Silk Road Economic Belt [17]. SCO supports the construction of the Belt and Road. The joint declaration issued by the heads of government of the SCO member states at their meeting in Astana in 2014 welcomed for the first time the initiative of the People's Republic of China to build a Silk Road Economic Belt. In 2015, ***the Ufa Declaration*** of the SCO for the first time expressed support for the initiative of the People's Republic of China on the construction of the Silk Road Economic Belt. In December of the same year, Premier Li Keqiang proposed to make the SCO a platform for cooperation on security, production capacity, connectivity, finance, regional trade, and social and livelihood issues in the construction of the Silk Road Economic Belt. The Heads of Government of the SCO issued ***the Joint Statement on Regional Economic Cooperation***, considering the initiative to be in line with the development objectives of the SCO [18].

SCO member states are actively seeking strategic alignment with the Belt and Road. The Belt and Road initiative has received positive responses from SCO member states, observer states, and dialogue partner countries, which have signed cooperation documents with China on the construction of the Belt and Road and formulated their own long-term development strategies to dovetail with it. In 2014 and 2015 respectively, Kazakhstan issued its "Development Strategy 2050", the "Bright Road" new economic policy and the second "Five-Year Plan for Industrial Development and Innovation". Uzbekistan issued the ***Strategy of Action for Further Development*** and the economic restructuring plan to develop transport infrastructure and move away from the energy development model, while Tajikistan and Kyrgyzstan have also developed the "Development Strategy for 2030" and the "Development Strategy for 2040", respectively. The China-Kazakhstan cooperation in production capacity has become a model of cooperation in contributing the Belt and Road together.

The SCO can be an important platform for docking cooperation between the Belt and Road and the Eurasian Economic Union, and the role of the SCO as a platform for strategic docking cooperation between the two projects was clearly emphasized in ***the Joint Declaration on Docking Cooperation between the Construction of the Silk Road Economic Belt and the Eurasian Economic Union*** signed by China and Russia in 2015. ***The Joint Declaration of the 20th Regular Meeting*** of the Chinese and Russian Prime Ministers in December of the same year clearly stated that the two sides consider the SCO as the most effective platform for realizing the docking of the construction of the Silk Road Economic Belt and the construction of the Eurasian Economic Union.

Russia's Initiative to Build a "Greater Eurasian Partnership" through SCO

In 2016, Russian President Vladimir Putin officially launched the initiative to build the Greater Eurasian Partnership at the opening of the Petersburg International Economic Forum. According to S. Karaganov, the architect of the "Greater Eurasian Community", the "Greater Eurasian Partnership" will achieve common prosperity through the gradual formation of a free trade area encompassing the entire continent, the development of a consensual Greater Eurasian transport strategy, the establishment of a stable financial system [19]. The partnership will be based on the development of a continent-wide free

trade zone, a consensual Eurasian transport strategy, a stable financial order, local currency settlement of cross-border trade and investment, an independent payment system, and a Eurasian mutual assistance organization[14]. This is similar to China's Belt and Road initiative and its strategy of implementing a high-quality, globally oriented free trade area, which together constitute the main elements of the Eurasian Economic Partnership [20]. The partnership will be based on the basic principles of respect for sovereignty and territorial integrity and the maintenance of peace and stability; respect for political pluralism and rejection of interference in internal affairs; economic openness and mutual benefit; political stability and conflict prevention; cultural diversity and dialogue among civilizations. This is in line with China's advocacy of "building a new type of international relations" and "community of human destiny" [21].

Russia sees the SCO as an institutional model for the Greater Eurasian Partnership [22]. On the one hand, it promoted the expansion of the SCO in 2017, with India and Pakistan becoming full members, and Iran and Mongolia joining the organization in the near future [23]. The Valdai Club, which has a significant influence on Russian foreign policy, stated as early as 2015 that "the Greater Eurasian Community can function as an organization through SCO" and that "the rapid development of SCO can become a central mechanism for the creation of a Greater Eurasian Community"[15]. The official website of the Russian SCO Presidency further specifies it as "promoting synergy of national development strategies and the potential of multilateral integration projects, establishing SCO as an important pillar for building a broad, equal and mutually beneficial space for cooperation in the Eurasian region and guaranteeing reliable under the idea of 'Greater Eurasian Partnership"[16]. ***The Moscow Declaration of the Council of Heads of State of the SCO***, signed in November 2020, states that the member states take note of the initiative of the Russian Federation to establish the Greater Eurasian Partnership with the participation of the SCO, the Eurasian Economic Union, ASEAN countries and other relevant countries and multilateral mechanisms [24].

New Version of the Multilateral Economic and Trade Cooperation Framework Starts a New Journey of Economic Cooperation

In view of the fact that the ***Programme of Multilateral Economic and Trade Cooperation among SCO Member States***, which was drawn up in 2003 with a view to 2020, has almost expired, a new version of the ***Programme of Multilateral Economic and Trade Cooperation for 2035*** was drawn up and adopted by the SCO Ministers of Trade and Economic Cooperation in September 2019 [25].

The new version of the ***Multilateral Economic and Trade Cooperation Programme*** sets new basic objectives: in the short term (until 2025) "to develop and implement plans and projects in areas representing mutual interests of the member states, using modern innovative and 'green' technologies"; in the medium term (until 2030) "plans to guarantee the growth and transformation of the economies of the countries through the development of stable and transparent rules and procedures in the field of trade and investment within the framework of the SCO, to promote the development of services and e-commerce industries", "to continue to study methods of trade facilitation in the region, to develop and implement ***the SCO Charter***; in the long term (until 2035) to improve global competitiveness and ensure the digital transformation of the national economies of SCO member states through the adoption of digital technologies and the creation of favorable conditions for the gradual realization of the free movement of goods, capital, services and technologies provided for in ***the SCO Charter***.

The new version of ***the Multilateral Economic and Trade Cooperation Programme*** sets out a broader range of priorities for cooperation, including trade and investment, banking and finance, transport and logistics, industry, agriculture, energy, customs, innovation, information and communication technologies, spatial development, cross-regional collaboration, tourism, ecology, education and other areas representing mutual interests.

In order to achieve the goals set out in the new version of t***he Multilateral Economic and Trade Cooperation Programme*** in each of these areas of cooperation, 88

[14] Karaganov S. From the Turn to the East to Greater Eurasia: Global Context. International Life, 5. 2017. C. 13–24; Karaganov S., From East to West, or Big Eurasia [N]. Rossiyskaya Gazeta. Federal Issue No. 7109, 24.10.2016, p. Power.

[15] Karaganov S., A Euro-Asian way out of the European crisis[J]. Russia in Global Politics. No 3, 2015. C. 2–6; Karaganov S., Bordachev T. et al, To the Great Ocean — 3: Creating Central Eurasia [R]. Moscow, June 2015. p. 14.

[16] Priorities of Russia's presidency of the SCO in 2019–2020 [EB/OL]. URL: https://sco-russia2020.ru/.(accessed on 20.04.2020).

specific tasks have also been proposed. These include thorough trade and investment facilitation, direct interbank settlement and expansion of local currency settlement, studying the possibility of establishing the SCO Development Bank and the SCO Development Fund (special account), building multimodal transport corridors, cooperation in production capacity and building industrial parks, and carrying out work on opposing international and regional trade protectionism and upholding an open, transparent, inclusive and non-discriminatory multilateral trading system based on the principles and rules of the WTO. The achievement of the objectives of the new version of the MEA will contribute to sustainable and inclusive economic growth in the region and to the achievement of the goals set out in the 2030 Agenda for Sustainable Development.

FTA Construction as a Long-term Goal of SCO Economic Cooperation

The huge differences in economic strength and volume, economic structure and layout, level and stage of development, as well as political and economic systems, ethnic and racial composition, and religious belief policies among the SCO member states have seriously hindered the formation of institutional arrangements for economic cooperation in the SCO, and not only the lowest stage of the economic integration process, a free trade area, could not be agreed upon, but also trade and investment facilitation agreements have been delayed for a long time. The average tariff rate of SCO member states in 2018 was 7.6%, with the simple average applied rate for all products at 4.9% in Russia, 4.6% in Kazakhstan, 13.6% in Uzbekistan (2015), 3.9% in Kyrgyzstan, 5.1% in Tajikistan (2017), and 9% and 12.6% in India and Pakistan respectively, with China lying at the average level. The overall SCO tariff level is higher than the world average of 7% and much higher than the EU's 1%[17]. The main concern of the member states is that cheap goods from the "world factory" will impact their national industries and threaten their economic security [26, 27].

Although the SCO member states are all developing countries and belong to the "South-South cooperation" model, their differences and complementarities determine the need for economic cooperation, and promoting the process of economic integration, trade and investment facilitation and free trade within the organization will promote the growth and development of all SCO member states. Development, especially for countries in the relatively less developed regions of Central and South Asia, will gain more opportunities for development. The author and his PhD students, Beibei Hu and Di Wu, calculated the complementarity index of trade among the SCO member states, and the results were all above the critical point of 0.5, with China's complementarity index with all member states except India being greater than 1, especially with Uzbekistan at 2.13. The authors' analysis of the economic growth and the trade diversion and creation effects of the SCO FTA after its establishment, using the GTAP model, shows that the FTA can increase the GDP growth of each member country by 0.1 percentage points, with China, Russia and India increasing by 0.25, 0.17 and 0.1 percentage points respectively, while weakening the growth of other countries. The FTA will also increase the exports and imports of the SCO member countries to varying degrees, and the increase will be significantly larger than the decrease in non-member countries, with Kyrgyzstan's exports and imports increasing by the highest rate of 4.4% and 4.1% respectively[18]. See *Table 4* for more details.

The signing of the RCEP and the ***China-EU Investment Agreement***, in which China will participate by the end of 2020, will be as significant as China's accession to the WTO, marking the initial formation of the largest common economic space between the Asia-Pacific economic sphere and the world's largest economies in the Eurasian region as the engine of the world economy. In addition, China is actively seeking to join the CPTPP, a free trade common economic space that will then span further across the Pacific Ocean. If free trade is achieved within the SCO framework, this common economic space will be integrated with the EU and become the largest free trade area in the world. To this end, the ***Joint Statement*** signed by China and Russia in 2016 stated that "China and Russia advocate the establishment of a comprehensive Eurasian partnership. 2017 saw the signing of the ***The Joint Statement on Further Deepening of the Comprehensive***

[17] World Bank. URL: https://data.worldbank.org.cn (accessed on 20.04.2020).

[18] HU Beibei, WU Di, and LI Xin. On the Feasibility and Economical Effect of a Free Trade Area for the Shanghai Cooperation Organization. Global Review. Vol. 10 No. 3 May/June 2018. pp. 50–69.

Table 4

The impact of the SCO FTA on the macroeconomics of the SCO member states

	Change of GDP, %	Change of Import, %	Change of Export, %	Change of Welfare, Million US dollars
China	0.25	0.59	0.69	1389.3
Russia	0.17	0.96	1.55	520.9
Kazakhstan	–0.01	0.87	1.38	23.5
Kyrgyzstan	–0.02	4.42	4.07	15.4
Tajikistan Uzbekistan	0.09	1.13	1.71	5.5
India	0.09	2.14	2.11	451.9
Pakistan	–0.01	3.72	2.87	81.1
NAFTA	–0.02	–0.03	–0.03	–268.0
EU	–0.03	–0.04	–0.04	–796.6
Other countries of the world	–0.04	–0.05	–0.07	–9.9

Source: HU Beibei, WU Di, and LI Xin. On the Feasibility and Economical Effect of a Free Trade Area for the Shanghai Cooperation Organization. Global Review. Vol. 10 no.3 May/June 2018. p. 62.

Strategic Partnership for Cooperation signed by the two sides in 2017 further defined the Comprehensive Eurasian Partnership as the Eurasian Economic Partnership. China's Belt and Road and Russia's Greater Eurasian Partnership share the same goal of promoting regional integration.

NEW CHALLENGES FOR SCO TO ACCOMPLISH ITS NEW MISSION

While fulfilling its new mission, the SCO is also faced with a series of new issues and challenges.

World Economy in Crisis due to Unprecedented Changes of the Century

The gradual decline of Western hegemony led by the United States and the strong rise of emerging economies led by China are the unstoppable wheels of history. The United States has raised the banner of unilateralism and trade protectionism, which on the one hand has led to the continuous war in the Middle East and North Africa, the influx of immigrants to Europe, and the rise of populism in Western countries; on the other hand, it has made China and Russia its competitors and wielded tariffs and sanctions against them respectively, resulting in the loss of momentum in global economic development and the global spread of the COVID 19 epidemic, which triggered a serious recession in the world economy and caused adverse effects on other SCO member states. All signs indicate that the US under Biden will still pursue a strategy of simultaneous containment of China and Russia. On the one hand, it will further use sanctions in the financial and energy sectors as a grip to cut Russia's ties with the external economy; on the other hand, it will draw in India to join the Indo-Pacific strategy the "quadruplets", the "five-eyed alliance" and the anti-China coalition, withdrawing from ***the INF Treaty*** to strengthen its military deployment in the Asia-Pacific region, and plotting to split China from Taiwan, Hong Kong and the South China Sea to Xinjiang and Tibet; on the other hand, imposing technological blockades and sanctions on Chinese enterprises. This is an attempt to "decouple" the economies of the world's two largest economies. This must have serious implications for the other SCO member states [4].

In response, Chinese President Xi Jinping warned at the World Economic Forum in Davos that humanity is suffering from the most serious economic recession since the end of the Second World War, and that if we take the divergent path of confrontation, whether we engage in a cold war, a hot war, or a trade war or a technology war, it will ultimately harm the interests of all countries and sacrifice the well-being of people. He called on the world to abandon ideological prejudices and join hands to tackle global challenges by pursuing the path of peaceful coexistence and mutual benefit and build an open world economy, firmly uphold the multilateral trading system, refrain from discriminatory and exclusive standards, rules and systems, and refrain from high barriers that divide

trade, investment and technology. The international community should be governed according to rules and consensus reached by all countries together, and not by one or a few countries calling the shots. Russian President Vladimir Putin also issued a stern warning that the current international situation is very similar to that of the 1930s, when the failure to properly address certain issues led to the Second World War. If we sit back and do nothing, the situation today will slide into the unpredictable and uncontrollable. There is a risk of a disruption of world development, of all against all, of attempts to resolve sharpened contradictions by finding internal and external enemies, etc. The social and values crisis has turned to negative demographic consequences, and the whole of humanity will thus face the loss of an entire civilizational and cultural bedrock. We are already feeling the rising tone of foreign politics and propaganda, and can expect an intensification of practical actions including the use of trade barriers, illegal sanctions and restrictions in the financial, technological and information fields to pressure those who do not listen and do not obey. This game without rules very realistically raises the risk of unilateral use of force.

Structural Differences in the Economies of SCO Member States Slow down the Integration Process

When the SCO was first established to define the objectives of economic cooperation, the then Chinese Premier Wen Jiabao initiated the gradual establishment of a free trade area of the Shanghai Cooperation Organization", but was opposed by other member states and had to settle for the second best, the ***Declaration on the Establishment of the Shanghai Cooperation Organization***, the ***Charter of the Shanghai Cooperation Organization*** and the ***Programme of Multilateral Economic and Trade Cooperation of the Shanghai Cooperation Organization*** agreed to start with trade and investment facilitation, and then Chinese Premier Wen Jiabao signed the ***Memorandum of Understanding between the Governments of SCO Member States on the Basic Objectives and Directions of Regional Economic Cooperation and the Launching of the Trade and Investment Facilitation Process***. China's initiative to launch a feasibility study on the organization's FTA again in 2018 has yet to receive a positive response from other member states. The process of trade and investment facilitation negotiations has also been unusually slow, with Presidents Hu Jintao and Xi Jinping repeatedly calling for promoting regional economic integration and trade and investment facilitation and greater steps towards trade and investment facilitation and liberalization. However, it was only in 2018 that the heads of SCO member states issued a Joint Declaration on Trade Facilitation at the Qingdao Summit. The new version of the Outline on Economic and Trade Cooperation postpones the goal of trade and investment facilitation and the free flow of goods, capital, technology, and services until 2035 [29].

In addition, as early as 2004, the Heads of State of the SCO member states unanimously decided to initiate the establishment of a development fund for the organization. In 2005, the SCO member states signed ***the SCO Interbank Cooperation (Consortium) Agreement***, but the establishment of the Development Fund was delayed. In 2011, in the face of the global financial crisis, the Prime Ministers of SCO member states issued the ***Joint Statement on the Economic Situation about the World and the SCO Region***, calling for the establishment of a special account and development bank as soon as possible as a mechanism for financing project cooperation within the SCO framework. However, there is no sign of it. The new version of the ***Economic and Trade Cooperation Programme for 2035*** is only studying the possibility of establishing an SCO Development Bank and an SCO Development Fund (Special Account).

The scale of trade and investment in the SCO region is severely constrained by the inability of SCO member states to agree on a free trade area, trade and investment facilitation, and the construction of the SCO Development Fund and Development Bank. The existing scale is seriously lagging behind the level of SCO cooperation in the political and security fields. The scale of trade and investment between China and SCO member states is basically on a par with that of Africa, lagging far behind that of ASEAN and Latin America. The reason for this is that, apart from geopolitical factors, the interests and aspirations of the member states in various aspects such as politics, culture and religion are very different from each other, and their economic structures and scales, levels and stages of development are very different. With such huge differences, it is difficult to seek common ground while reserving differences, and the principle of consensus

hinders economic cooperation in a multilateral framework. As a result, it is difficult to establish uniform institutional norms for economic cooperation among the SCO member states, and therefore institutional arrangements for free trade and trade and investment facilitation are stagnant, and economic cooperation is limited to the bilateral level among member states [30].

It is Russia that plays a key role here. China and Russia are the axes of the SCO, with China seeking to use its economic advantages to promote economic cooperation and Russia seeking to use its security advantages to become a provider of security in the region. Russia has spared no effort to integrate into the world economic system, such as building a "Greater Europe" with the EU as a common economic space and joining the WTO and OECD. Under the conditions of a total economic blockade imposed by the West, Russia feels a sense of anxiety and loss in the face of the signing of the RCEP, but does not want to be included in "China's free trade zone" and become a "raw material subordinate" and "market subordinate" to China. In this respect, the Central Asian countries are "strikingly similar" to Russia. It is for this reason that the Eurasian Economic Union and the Silk Road Economic Belt are "dovetailing" in an attempt to use the resources of the Belt and Road to strengthen their dominant Eurasian Economic Union [31].

Rapid Expansion of SCO will Significantly Reduce the Efficiency of Cooperation

Russia's dream of integrating into "Greater Europe" was shattered and as a result of NATO's expansion to the east, Russia had to break out "to the east" with the Eurasian Economic Union and open up a "Greater Eurasia" strategic space. The "Greater Eurasia" strategic space is to transform Russia from a Eurasian bridge into the heart of the rising "Greater Eurasia" and to use the "non-Western Greater Eurasia" as a geopolitical bloc to confront the US and the West. To this end, Russia sees the expanded SCO as the institutional platform for "Greater Eurasia" and in 2017 successfully brought India and Pakistan, with their difficult contradictions, into the SCO, with Iran and Mongolia becoming full members in the near future., In accordance with Russia's wishes, Belarus, Armenia, Azerbaijan, Afghanistan, and Syria should also join the SCO [32]. Thus, on the one hand, an enlarged SCO enhances the geopolitical attributes and the possibility of a bipolar pattern of confrontation with the West, thus reducing the necessity and possibility of economic cooperation. On the other hand, the widening differences between the member states and the limitations of the "consensus" principle have significantly reduced the efficiency of economic cooperation in the SCO. In particular, the irreconcilable contradictions and conflicts between India and Pakistan, as well as the competition between India and China for great power status and territorial disputes have severely restricted cooperation in various fields within the framework of the SCO. To make matters worse, India has joined the quadruple Indo-Pacific strategy, a "mini-NATO" in the Asia-Pacific region to contain the rise of China, thus playing a divisive role in the SCO.

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