Economic Cooperation under the Shanghai Cooperation Organization: Achievements and Prospects

Over the two decades since its founding, the Shanghai Cooperation Organization (SCO), in the spirit of pragmatism and unity, has made remarkable achievements in the three pillars of security cooperation, economic cooperation, and cultural and people-to-people exchanges, “setting an example for a new type of international relations that features mutual respect, equity, justice and win-win cooperation” and becoming “a major constructive force in the Eurasian region and global affairs.”1 As an important foundation for the SCO’s steady development, economic cooperation has been playing a crucial role in building economic ties across the region aimed at common prosperity, which continuously adds endogenous momentum to regional cooperation and becomes a model of cooperation among emerging economies.

Remarkable Achievements

Under the general framework of the Treaty on Long-Term Good-Neighborliness, Friendship and Cooperation, and specifically guided by the Program of Multilateral Trade and Economic Cooperation, from 2001 to 2021, the SCO countries have overcome multiple difficulties and made active efforts to explore new arenas of cooperation and innovate the patterns

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of cooperation, thus yielding substantial results in mechanism-building, trade, investment, finance and connectivity. All this has greatly enhanced people’s well-being in the countries and the overall economic performance of the whole region, while elevating the SCO’s influence in the world economy.

**A more robust framework for regional economic cooperation**

First, the legal basis for SCO regional economic cooperation has been constantly consolidated. In September 2001, the Memorandum on Basic Goals and Directions of Regional Economic Cooperation and Launching the Trade and Investment Facilitation Process was signed as the first SCO document in this regard. To reinforce the legal foundation for regional economic cooperation, the SCO countries have signed a series of documents in the subsequent years including: the Program of Multilateral Trade and Economic Cooperation (2003), the Action Plan for the Implementation of the Program of Multilateral Trade and Economic Cooperation (2004), the Joint Initiative on Accelerated Multilateral Economic Cooperation to Overcome the Global Financial and Economic Crisis Impacts and Ensure Further Economic Development (2009), the SCO Mid-Term Development Strategy (2012), the SCO Development Strategy until 2025 (2015), the List of Measures for Further Development of Project Activities within the SCO for the Period 2017-2021 (2016), a new version of the Program of Multilateral Trade and Economic Cooperation (2019), and the Action Plan for 2021-2025 on the Implementation of the Program for Multilateral Trade and Economic Cooperation (2020). Other cooperation agreements signed by SCO countries have covered multiple fields such as customs, finance, e-commerce, transportation, energy, tourism, agriculture, and ecological and environmental protection. As a result, the SCO’s mutually beneficial economic cooperation has stood on a sound legal footing.

Second, mechanisms for SCO inter-governmental cooperation have been continuously improved. As the most important inter-governmental cooperation mechanism under the SCO framework, the Council of Heads of Governments (Prime Ministers) is responsible for formulating
the strategies and priorities for SCO multilateral cooperation, addressing
the principles and urgent issues in economic cooperation, and approving
the SCO’s annual budget. By the end of 2020, the Council had held
19 meetings that guided in-depth development of regional economic
cooperation. Coordination mechanisms have been successively set up for
ministers in charge of economics and trade, transportation, agriculture,
science and technology, finance, and central banks. The Commission
of Senior Officials in Charge of Trade and Economic Cooperation, and
seven special working groups respectively on customs, quality inspection,
e-commerce, investment promotion, development of transit potential,
energy, and modern information and telecommunications technologies, are
tasked with advancing cooperation in relevant fields. Moreover, the three
non-governmental cooperation mechanisms of the Interbank Consortium,
the Business Council and the Economic Think Tanks Alliance, as well as
the financial arm of China-Eurasian Economic Cooperation Fund, have
effectively supported the realization of regional economic cooperation
objectives.

Third, economic cooperation between local governments of SCO
countries has become a new growth point. The idea of establishing a
mechanism for SCO local cooperation was formally put forward at the
first Euro-Asia Economic Forum in 2005. To enhance local cooperation
between member countries, the SCO has set up the China-Kazakhstan
Horgos International Border Cooperation Center, the Yangling Agricultural
Hi-tech Industry Demonstration Zone, the China-India Pharmaceutical
Manufacturing Industrial Park in Guangxi’s Fangchenggang, and the
China-SCO Local Economic and Trade Cooperation Demonstration Zone
in Qingdao. These represent the SCO’s continuous efforts to explore new
paths of local cooperation. The first Forum of Regional Leaders of SCO
Member States, held online on October 29, 2020, marked the formal
launch of SCO local cooperation mechanism. So far, the Russia center in
the China-SCO Local Economic and Trade Cooperation Demonstration
Zone has been set up, and is committed to building a new platform and

a new bridge for local cooperation between the two countries.² The development of SCO local cooperation mechanism from the beginning and its steady evolution from concept to practice has consolidated the basis of SCO economic ties.

**Regional trade registers historic high**

First, trade scale within the SCO region has reached a record high. According to the United Nations’ database on trade in commodities, the aggregate trade volume of the SCO’s six original member states surpassed US$112.5 trillion in 2019, compared to only US$672 billion in 2001. Over the years, trade contacts among the SCO countries have also become increasingly frequent. In 2019, bilateral trade between all the member states reached US$306.3 billion.³ From the initial US$12 billion, trade volume between China and other SCO countries expanded to US$258.8 billion in 2019, a 20-fold increase. Due to the COVID-19 pandemic, regional trade witnessed a slight decline in 2020, but has recovered its growing momentum in 2021. By the end of 2020, China was the largest trading partner of Russia, Uzbekistan, Kyrgyzstan, India and Pakistan, the second largest trading partner of Kazakhstan, and the fourth largest for Tajikistan. It had also remained Russia’s largest trading partner for 11 consecutive years. In addition, trade with other SCO countries accounted for nearly 90 percent of Tajikistan’s foreign trade volume in the first 11 months of 2020.⁴ Also in 2020, the trade volume between Uzbekistan and China reached US$6.4 billion, while the trade between Uzbekistan and Russia recorded US$5.6 billion.⁵

Second, trade within the SCO region has become more complementary.

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In the bilateral trade between China and other SCO countries, China mostly exports mechanical and electrical products as well as textiles and apparel, while mainly importing energy, minerals, agricultural products and timber, which demonstrates a strong complement of trade. Regarding the composition of its imported commodities, crude oil accounted for 15-20 percent of China's total imports from other SCO states in 2019, while natural gas took a one-third share. Major imports from Kazakhstan include oil, natural gas, and ferrous and non-ferrous metal. Minerals, chemicals, metal products and agricultural products take a large share of China's imports from India. From Pakistan, China mostly imports timber, agricultural products, cotton yarn, grain, mineral sands and textile raw materials. In terms of the composition of its exports, mechanical and electrical products and textiles were China's major exports to Russia and Kazakhstan in 2019, with a share of 49.5 percent and 48.5 percent respectively. Mechanical and electrical products also accounted for 46 percent and more than one-third of China's exports to India and Pakistan respectively.6

Third, cross-border electronic commerce has witnessed rapid growth. Chinese e-commerce giants have been undertaking cooperative projects in SCO countries in a variety of fields and patterns. For example, AliExpress Russia, a joint venture set up by Alibaba with its Russian partners that operates cross-border e-commerce in Russia, has become the most popular e-commerce platform among local consumers. AliExpress Russia claims as many as 10 thousand registered Russian enterprises, which significantly boosts local e-commerce in Russia through its sophisticated e-commerce infrastructure. Innovation is also constantly emerging in the e-commerce cooperation between China and Central Asian countries. For example, Alibaba has been training small and medium-sized enterprises on e-commerce know-how in Kazakhstan, and working on cooperation between its Alipay and the electronic payment operation of Kazakhtelecom, and between its Cainiao Smart Logistics Network and Kazpost. To expand

market for Kazakhstan’s exports, the trade authority of Kazakhstan planned to help 50 local enterprises register on Alibaba by the end of 2020.7

**Regional investment cooperation benefits people’s livelihood**

First, investment across the SCO region is steadily growing. According to UN Conference on Trade and Development statistics, SCO countries have been increasingly attractive to external capital over the years. In terms of flows, total foreign direct investment in the SCO states was only US$52.62 billion in 2001, but the figure had surged to US$231.56 billion by 2019.8 In particular, China has been rapidly stepping up investment in other SCO member countries. As SCO Secretary-General Vladimir Norov indicated, China came to the rescue of the world economy twice, during the 2008-2009 global financial crisis when it launched a massive investment program, and in 2020 when it remained the world’s largest overseas investor despite the declining trend in global investment due to the coronavirus pandemic.9 In terms of stock, China’s non-financial direct investment in other SCO countries had amounted to US$35.21 billion by the end of 2019, accounting for 1.6 percent of its total FDI stock. This was a 348.6-fold increase compared to US$101 million in 2003.10 Among the amount, China’s non-financial direct investment to Kyrgyzstan and Tajikistan had reached US$1.55 billion and US$1.95 billion in 2019, from US$20 million and US$1 million in 2003 respectively. China is now the two countries’ largest foreign investor. Besides, China has been Pakistan’s largest source of foreign investment for the past nine years, Uzbekistan’s second largest foreign investor, and Kazakhstan’s fourth largest foreign investor.

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Second, the areas invested are constantly expanding and optimizing. Over the past two decades, SCO countries have centered on issues regarding regional development and cooperated on their investment in energy, infrastructure, production capacity and agricultural techniques. Particularly driven by the Belt and Road Initiative (BRI), investment has been growing in projects of manufacturing sectors such as construction materials, automobiles and home appliance assembling, which facilitates the industrial transformation and upgrading of relevant countries. For instance, China’s investment in Russia initially concentrated on oil, gas and refinery sectors, but has since covered more diverse areas including agriculture, finance, manufacturing, wholesale and retail, as well as scientific research and high-tech services. With 37 industrial parks in other SCO countries, China has been adjusting its investment focus from resource-intensive industries to processing and manufacturing sectors, which yields a positive effect of industrial agglomeration.

Third, the investment projects have brought direct benefits to local people’s livelihood. Among the projects constructed by Chinese enterprises, the Datka-Kemin power transmission line in Kyrgyzstan fundamentally solved the problem of uneven power resources distribution and uneven power transmission in the country. The Osh Clinic Hospital in the southern Kyrgyz city of Osh made medical services the most advanced in the Central Asian region available to local people. The China-Kyrgyzstan-Uzbekistan Highway has become a major unimpeded artery for international transport. The inauguration of the Vahdat–Yovon Railway in Tajikistan, with its multiple bridges and tunnels along the line, connected the originally separated rail networks in the northern and southern parts of the country. The completion of the Dushanbe No.2 Thermal Power Plant made power shortage in the winter of the Tajik capital a thing of the past. The Gayur-Sughd Cement, the Dangara Oil Refinery, the Zhongtai New Silk Road Agriculture and Textile Industrial Park, and the Istiklol Smelting and Industrial Park have helped to fuel the industrialization of Tajikistan. In addition, China has been actively conducting agricultural cooperation with
its SCO neighbors to make the cooperation outcomes more accessible to local people. Against the difficulties posed by the COVID-19 pandemic, China continues to advance the investment projects within the region and has made a substantial contribution to the business resumption and economic recovery in the countries concerned, such as the operation of the Navoi PVC project, the largest of its kind in Uzbekistan built by Chinese companies.

**Diverse financing channels support closer financial cooperation**

The signing of the Agreement on Interbank Cooperation (Consortium) in 2005 marked the formal establishment of the SCO Interbank Consortium. As the most important platform for regional financial cooperation, the Consortium has set up multiple financing channels over the past 15 years that effectively support the SCO’s development.

First, through offering concessional loans, the Consortium has helped improve the communication, transportation, electricity, hydraulic, agricultural and energy infrastructure in SCO countries and optimize their national economic systems. China is the major provider of preferential loans for SCO states. Latest statistics show the balance of loans on cooperation projects from the China Development Bank (CDB) to SCO member states, observer states and dialogue partners totaled US$49.6 billion. And the CDB has issued US$8.7 billion, plus another 10 billion yuan in renminbi (or US$15.4 billion), of loans to member banks and partner banks of the Consortium. With a 30-billion-yuan special loan (or US$4.6 billion) set up under the framework of the Consortium, the CDB is undoubtedly the largest and most active member institution.

Second, following the concept of sustainable development, the Consortium has been supporting the economic growth and improvement of people’s livelihood in countries across the region through mechanism building, project financing, cooperation in planning, personnel training, personnel training,
and policy research. The Consortium is also actively promoting currency swaps and local currency settlement. So far, China has signed bilateral local currency swap agreements, worth US$160.7 billion in total (or US$24.8 billion), with Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The Moscow Declaration of the SCO Council of Heads of State, issued in November 2020, reiterated support for expanding the practice of national currency payments and increasing the share of such payments in the mutual settlements between the interested SCO member states. The discussion of the roadmap for gradual transition to mutual payments in national currencies was also noted at the above Council meeting.¹²

Last, financial institutions of SCO countries have been relying on the Consortium and innovating their financial cooperation models such as cooperation between banking and insurance sectors and cooperation between banks and enterprises. For example, as the first cooperation and exchange platform for Chinese and Russian financial institutions, the China-Russia Financial Alliance now has 68 member banks, among which 32 are Chinese banks spanning 12 key domestic provinces under the Belt and Road Initiative. Among the 36 Russian member banks, 22 are headquartered in Moscow, and 14 have branches in Russia’s Far East or Siberia. Cooperation under the Alliance involves cross-border financing, capital settlement, local currency settlement, foreign exchange transactions, foreign currency banknotes, e-banking and multiple other areas. Besides, the China-Kazakhstan framework agreement on establishing an agricultural development fund in 2017 and the production capacity cooperation fund up to US$2 billion between the two countries have given solid financial support for relevant bilateral cooperation. Moreover, the interconnection between Uzbekistan’s national unified settlement center and China’s UnionPay international payment system has enriched the experience for settlement cooperation between SCO countries.

Interconnectivity facilitates regional economic integration

Since the Program of Multilateral Trade and Economic Cooperation was adopted in 2003, connectivity has been a consistent focus of SCO economic cooperation. The new version of the Program, passed in 2019, further prioritized interconnectivity between member states on the regional economic cooperation agenda for the next 15 years. Guided by the Program, the SCO countries have been rapidly developing their transportation, energy and telecommunication infrastructure, and advancing multi-dimensional connectivity of facilities on air, land and sea as well as in the digital space.

Transportation infrastructure has witnessed fast growth. As the landmark project of interconnectivity, the China-Europe Railway Express, which passes most SCO countries in Central Asia, has accelerated the mutually beneficial cooperation across the region. In 2020, the “steel camel fleet” operated 12,406 trains, an increase of 50 percent year-on-year, with the comprehensive load capacity utilization rate reaching 98.4 percent, thus playing a crucial role in stabilizing international supply and industrial chains, and supporting the joint response of China and European countries to the pandemic. The introduction of the “digital port” system has also facilitated high-quality development of China-Europe Railway Express. Besides, the completion of cross-border highways has become a highlight of interconnectivity. So far, China has opened cross-border road transport channels with 27 countries, including the SCO members. The freight shipping time by cross-border highway of over 7,000 kilometers has been shortened to about two weeks. With an increasingly diverse array of international road transport options that connect China with Central Asian countries, Mongolia, Russia, the Caucasus and further to Europe, a new road-based China-Europe logistics channel is taking shape that also gives play to the complementary advantages of sea, air and rail transport.

Energy infrastructure is a new growth point of SCO interconnectivity. Put into operation in December 2009, the Central Asian natural gas
pipelines have transmitted a total of over 335.9 billion cubic meters of gas to China, which accounts for more than 15 percent of China’s natural gas consumption during the same period. The China-Russia east-route natural gas pipeline, a project pushed by the two sides heads of state that would ultimately span over 8,000 kilometers from Russia’s Siberia to China’s Yangtze River Delta, has also gone into operation. According to the agreement between the two countries, Russia would provide 1 trillion cubic meters of natural gas to the Chinese side in the next 30 years, with an annual supply of 38 billion cubic meters when the pipeline operates at full capacity. This marks a new chapter of win-win cooperation on energy connectivity between SCO countries.

The construction of telecommunication infrastructure is also injecting renewed momentum into regional development. In an effort to implement the “Go West” strategy, China Mobile is pushing forward the China-Kazakhstan-Russia and China-Mongolia land cable networks on the basis of the existing China-Kazakhstan and China-Russia cable networks. The China-Kyrgyzstan and China-Tajikistan land cable networks, which would be part of a future Eurasian data transmission fast track, are also under planning. So far, 17 new cross-border optical fiber cables have been built between China’s Xinjiang and neighboring SCO countries, to enhance digital connectivity. The statement of the SCO Council of Heads of State on cooperation in the field of digital economy in November 2020 calls for “strengthening digital connectivity, creating new cooperation to simulate growth, and enhancing investment attractiveness,” which will “bring new prospects and opportunities to economic development.” “Strengthening practical cooperation in the field of digital economy is conducive to enhancing the technological competitiveness of SCO member states and enhancing economic and social well-being,” the statement added.13

Successful Experience

As a major international organization in the Eurasian region, the SCO’s sustainable development is based on the economic cooperation between its member states, and relies on their economic ties which aim for common prosperity and constantly inject endogenous momentum into overall regional cooperation. Since its establishment, the SCO has made it a primary goal to “follow the trend of economic globalization and regional economic integration, develop regional economic cooperation under the SCO framework, enhance the economic power of regional countries, and increase the whole region’s status in the world political and economic structure.”

Over the years, economic cooperation under the SCO framework has yielded fruitful results. Amid the complicated global and regional situation, the SCO economic cooperation has broken a new trail that respects regional development conditions.

**Political mutual trust with the Shanghai Spirit as the core**

Being a comprehensive regional cooperation organization that covers the largest size of territories and the most population, the SCO’s establishment has been a complicated and tortuous process. Coming to birth on the Eurasian continent in the post-Cold War era, the SCO’s development relies on the high degree of political mutual trust between the member states, which is also the prerequisite for smooth economic cooperation under the organization’s framework.

The SCO’s political mutual trust comes from the adherence to the Shanghai Spirit. It is the key for SCO member states to recognizing the trend of the times and building up friendly and cooperative relations amid the intricate post-Cold War global and regional landscape. The SCO’s strong vitality and momentum of cooperation is, in the final analysis, attributed to

to the Shanghai Spirit, which champions mutual trust, mutual benefit, equality, consultation, respect for diversity of civilizations and pursuit of common development. Transcending outdated concepts such as clash of civilizations, Cold War and zero-sum mentality, it has opened a new page in the history of international relations and gained increasing endorsement of the international community.\(^\text{15}\) Guided by the Shanghai Spirit, the SCO countries have been actively committed to regional economic cooperation with an open mind, and setting up the architecture of SCO economic cooperation through a series of international agreements.

Economic cooperation has been a consistent priority jointly advanced by the member states since the first SCO meeting of heads of government in September 2001. Before 2005, mutual trust between the member states was mainly reflected in the establishment of economic cooperation mechanisms. Taking full advantage of the meeting of heads of government and the subordinate dialogues including those between trade and transportation ministers, guidelines for advancing SCO economic cooperation have been successively put forward with relevant arrangements set up. Currently, the policy foundation for economic cooperation under the SCO framework is constituted by three major documents: 1) the 2001 Memorandum on Basic Goals and Directions of Regional Economic Cooperation and Launching the Trade and Investment Facilitation Process, 2) the 2003 Program of Multilateral Trade and Economic Cooperation, and 3) the 2004 Action Plan for the Implementation of the Program of Multilateral Trade and Economic Cooperation.

Multiple ministerial coordination mechanisms, the Commission of Senior Officials in Charge of Trade and Economic Cooperation, and special working groups have been established on this basis. After 2005, the SCO economic cooperation gradually expanded from macroscopic strategic design to more microscopic areas of specific focus, which consequently calls for

additional elaboration and brings many non-governmental institutions into play. In the financial field, the launch of the SCO Interbank Consortium by multiple banking institutions of the member states in October 2005 has facilitated SCO financial cooperation.\textsuperscript{16} The SCO Business Council, established in June 2006, has greatly enhanced and coordinated economic and trade cooperation in various industries between SCO countries. In the subsequent ten and more years, the member states have made the utmost of inter-governmental and non-governmental channels under the SCO framework, and advanced pragmatic cooperation in energy, transportation, agriculture and communications, with achievements delivered in these areas as well as in responding to the financial crisis.

Whether in the establishment of an SCO economic cooperation architecture, or in the implementation of specific cooperative projects, all the outcomes have been made on the basis of sufficient political mutual trust between the member states. The complicated contradictions between SCO countries in terms of history, culture, religions, social systems and realistic interests were once considered a major stumbling block to multilateral economic cooperation. With the SCO in place, however, these countries have been able to enhance mutual trust and dispel misgivings through multi-level interactions and dialogues. The solid political mutual trust guided by the Shanghai Spirit has laid a sound foundation for economic cooperation in an increasingly sophisticated international environment.

\textbf{Common call for regional economic development}

The SCO member states are mostly developing countries in transition, and developing the national economy and improving the people’s livelihood is a common urgency on their agendas. The Central Asian member states, for example, only gained their sovereign status not long ago. With an immature industrial structure, a lack of financial input and a low economic development level, these countries are marginalized in global and regional economic

systems. As the root cause of various political, security, religious and cultural deadlocks facing the countries, the economic backwardness, if not squarely addressed, will nullify any effort aimed at national stability and development. On the other hand, endowed with rich energy reserves and multiple other productive factors that enable them to integrate into the global economic and trading network, Central Asian countries are eager for promoting regional economic development through some appropriate mechanisms.

In the globalization era, it is a conventional path for developing countries to engage with the world economic system by jointly establishing regional economic cooperation mechanisms or regional economic integration organizations. It is especially the case for many SCO member states located in the Eurasian hinterland. By strengthening economic ties with neighboring countries in the region, and promoting a broader free trade market, these countries are able to integrate their productive factors based on their respective comparative advantages, and thus unleash their economic potential, which ultimately leads to their common development.

Due to their large differences in terms of resources endowment and their entangled interest relations, SCO countries have also been trying different forms of economic cooperation in their two decades of engagement. Owing to its conventional trade ties with Central Asian countries, Russia is more inclined to advance regional economic cooperation through the Eurasian Economic Union (EEU) and other regional economic organizations composed mainly of former Soviet states, while regarding the SCO as mostly a mechanism for addressing regional security issues. In addition, several countries outside Central Asia have been setting up cooperation mechanisms in the region in an attempt to solicit participation by regional countries. In a word, the SCO member states have been undergoing a long time of exploration and coordination to properly define the organization’s role in regional economic development.

Thanks to the joint efforts and active coordination of its member states,

the SCO has scored pragmatic outcomes in multiple specific areas, though stopping short of a breakthrough in regional economic integration. The SCO itself has also constructed a platform for its members to effectively exchange economic information, coordinate policies at the top level, and make initial financial investment. The common call for regional economic development has served as the most important endogenous force for SCO economic cooperation, and the root driver of relevant achievements over the past two decades.

**China’s leading role in SCO economic cooperation**

Being a major engine of the post-Cold War global economy, China has a deep understanding of the significance of economic cooperation to the SCO’s long-term steady development. It is well aware of the value of sustainable economic development in the SCO region. Ever since the SCO’s establishment, China has been actively advocating multi-level economic cooperation under the SCO framework, and doing its best to energize SCO economic cooperation in various dimensions. China’s leadership has played a vital role in the two decades of SCO economic cooperation, which is mainly reflected in the following three aspects.

First, China is an important provider of cooperation concepts and principles in the SCO economic cooperation process.⁰ At the first SCO heads of government’s meeting in September 2001, China proposed the basic principles of SCO economic cooperation, namely “respecting market rules, upholding equality and mutual benefit, stressing mutual openness, focusing on actual results, and working for long-term cooperation and common development.”¹ The Chinese proposal was well recognized by other SCO member states, and laid a proper foundation for subsequent cooperative practice. In the two decades ever since, China has consistently upheld the concept of globalization and economic integration under the

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SCO framework, and encouraged all member states to rally around the vision of common development on the basis of equality and mutual benefit. China supports other SCO countries to join the World Trade Organization (WTO) and become more deeply involved in the global trading system.

Second, China is an active promoter of free trade mechanisms and initiatives in the SCO. While engaging in economic cooperation, China has been actively exploring free trade mechanisms at a higher level within the SCO, and seeking a feasible roadmap of regional economic integration. To promote regional economic cooperation, China has made tremendous efforts and investment, demonstrating its determination and sincerity in this regard. Early after the SCO’s inception, China mobilized its forces to conduct relevant research and dialogue, presenting various mechanism-building proposals. A number of influential economic cooperation arrangements within the SCO, such as the Business Council and the Interbank Consortium, were initiated by China. Considering the changes in regional economic environment, China has in recent years put forward regional development initiatives such as the SCO Development Fund and the SCO Development Bank. Besides, China has given specific suggestions on the economic cooperation between SCO countries in many fields. In fact, China has served as the locomotive for SCO economic cooperation.

Third, China has offered crucial support for SCO economic cooperation through multiple channels such as the Belt and Road Initiative. To accelerate the economic development of other member states and create favorable conditions for regional economic integration, China has invested extensively in the infrastructure, transportation and energy sectors of these countries, all while taking their specific conditions into account. This has fueled regional economic development with key capital, technological and market resources. In the wake of the global financial crisis, China gave a variety of financial assistance to those SCO countries in need, helping them bail out of trouble. When the BRI was formally launched by China in 2013, it received active response from other SCO states. The Central Asian member states successively synergized their domestic development strategies with the BRI,
while China and Russia reached consensus on the synergy between the BRI and the EEU. All this has given additional momentum to Eurasian economic cooperation and marked a new stage of SCO economic cooperation. Despite the complicated and volatile global and regional situation, China will continue to advance the SCO economic cooperation agenda and dedicate itself to closer economic integration in the region. As testimony to the commitment, Chinese President Xi Jinping vowed at the latest SCO summit to “forge greater synergy of the Belt and Road Initiative with national development strategies as well as region-wide cooperation initiatives such as the Eurasian Economic Union,” and “enhance connectivity and further integrate our industrial, supply and value chains for unimpeded economic circulation in the region.”20

**Challenges Ahead**

Over the two decades, the SCO member states have been steadily deepening their economic ties. Facilitated by the Belt and Road Initiative, their bilateral and multilateral cooperation, whether in the energy sector or in the fields of production capacity, facilities connectivity and economic corridor construction, has witnessed significant progress and supported their respective national economies and people’s livelihood. It should also be noted, however, that the sudden outbreak of the novel coronavirus pandemic in 2020 at one time put a halt to the economic activities of SCO countries. Some economies experienced a downturn, while some countries did nothing in response or even got in the way of others’ efforts. Multiple contradictions accumulated throughout the SCO’s development, such as the impact of external institutions and the problem of coordinating the interests of the member states, have been more straightforwardly exposed, leading to unprecedented difficulties and challenges. There is still a long way to go before all-encompassing pragmatic cooperation can be achieved within the SCO.

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**Diluting effects of extra-regional cooperation processes**

At present, many SCO member states have engaged in multiple economic cooperation processes, with some even taking a major responsibility for regional economic integration. The rapid development of extra-regional economic cooperation has to some extent distracted the limited energy and resources of SCO countries, which makes it difficult to maximize the benefit of intra-SCO cooperation. Ironically, the more effectively these extra-regional arrangements advance, the more significantly the progress of economic cooperation within the SCO may be diluted.

The intervention by the United States has made the situation even worse. In recent years, the arena of strategic competition between China and the US has turned to the regional level, especially over the prevailing economic rules in the Asia-Pacific.²¹ A “highly legalized” network of multilateral free trade zones, centered on the US and its Asia-Pacific allies, is emerging in the region. By bringing the regulatory systems of regional countries a leap forward, the potential of economic cooperation can be tapped to the greatest extent.²² For example, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which retains 95 percent of the provisions in the original Trans-Pacific Partnership Agreement (TPP), has become the highest-level free trade cooperation arrangement to date.²³ The US-Japan Trade Agreement, coming into effect on January 1, 2020 achieved after Japan’s major concession for the sake of its alliance with the US, has boosted Washington’s confidence in disintegrating the multilateral WTO rules by signing FTAs with more Asia-Pacific countries. Additionally, the formal signing of the Regional Comprehensive Economic Partnership Agreement (RCEP) by the ten ASEAN countries and

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China, Japan, South Korea, Australia and New Zealand, which marks the birth of the largest FTA in the world, may also pose some challenges to SCO economic cooperation.

Over the years, the SCO has set up various forms of exchange and dialogue mechanisms successively with the United Nations, ASEAN, the Commonwealth of Independent States, the Collective Security Treaty Organization, the Economic Cooperation Organization, and the Conference on Interaction and Confidence-Building Measures in Asia, among other global and regional organizations or mechanisms. Despite its active involvement in regional and global governance, the SCO has been slow in advancing regional economic cooperation. So far, the SCO has collaborated with the Eurasian Economic Union, with a focus on jointly building a unified economic space centered on Central Asian countries and finding the largest possible common ground for win-win cooperation.24

However, in the Asia-Pacific region, where international competition over institutions is intensifying, the overlap of diverse economic mechanisms has partially impacted relevant SCO cooperation and restrained the SCO’s economic functions. In terms of economic institutional harmonization, the SCO even risks being marginalized. Moreover, most SCO countries are concurrently members of other economic organizations, which may distract their commitment to SCO economic cooperation. The sluggish decision-making process and weak execution capacity also encumbers the effect of the SCO’s economic cooperation. Comparatively, the Asian Infrastructure Investment Bank, initiated and advanced by China, may be a more popular choice as an economic cooperation platform.25 Given these circumstances, the SCO can learn from ASEAN and the European Union and work to strengthen ties with institutions such as the WTO, the World Health Organization, the World Bank and the Asian Development

Bank. By speaking with one voice and enhancing coordination on issues of vital regional importance, the SCO can play an effective role in creating a favorable environment for development and security.

**Internal disagreements and fears for excessive dependence**

Due to their respective constraints in terms of state system, political willingness and capacity to act, there are marked differences between the SCO member states’ political and strategic orientation as well as their policy priorities. With distinct economic development levels and interests, the countries have yet to reach political and strategic consensus on the long-term goals and patterns of regional economic cooperation. In fact, regional economic cooperation has not truly become a priority recognized by all. Russia is making efforts to turn the SCO into its institutional instrument to counter Western geopolitical pressures. The Central Asian member states, despite their willingness to hitch the ride of China’s economic growth, are worried about their economic dependence on China in the process of cooperation.

The SCO’s success to this day is attributable not only to the mutual trust between the member states, but also to the strategic coordination between China and Russia, which serves as the major driver for the SCO’s steady progress. There exists certain strategic consensus among China, Russia and India, but China has been the main provider of regional economic public goods and the major financing side.26 For China, the SCO is a crucial instrument for its institutional involvement in regional integration. However, following India and Pakistan’s accession to the SCO, the pattern of major-power interaction within the organization has changed from China-Russia bilateral coordination to trilateral coordination among China, Russia and India, which brings more uncertainty to their effective cooperation. This is especially the case when it involves India, which is the only SCO member state that opposes the Belt and Road Initiative. India also withdrew from

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the RCEP at the last minute. Besides, India is the country that the United States is actively winning over under the Biden administration to step up its containment against China. Moreover, if the border conflict between India and Pakistan continues to intensify, all the benefits and positive outcomes of SCO enlargement will be nullified, which may even paralyze the entire organization.27

**Economic disparities restrain a leap forward in cooperation**

After two decades of joint efforts, the SCO countries have achieved in-depth economic cooperation and improved their business environment, which helps boost their economies and enhance people’s well-being. According to World Bank statistics, the aggregate GDP of SCO member states in 2001 was only US$1.67 trillion; in 2019, the figure, with the newly admitted member states included, had surged to US$19.4 trillion. The GDP of all the eight member states in 2019, compared to that in 2001, had without exception expanded at a rate higher than the global average. In terms of business environment, the rankings of all SCO members except Kyrgyzstan in the World Bank’s Doing Business report have risen from 2018 to 2020, among which the rankings of China, Pakistan and India leapt by more than 35 places.

Despite the achievements, there remain challenges facing SCO economic cooperation. In particular, the economic structural adjustment of Central Asian member states has witnessed slow progress. Though these countries are the principal actors of SCO economic cooperation, trade volume within Central Asia has stayed at a low level, even revealing a downward trend.28 Over the years, the economies of the Central Asian countries have been based on a single industry and heavily reliant on raw materials and energy. This gives rise to highly competitive relations between the states and economic

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over-dependence on external forces. Balancing the economic development of its member states has become a realistic and tough task facing the SCO. If not properly handled, the problem may lead to region-wide consequences. Besides, addressing the technological imbalance between the member states, for instance in the development of e-commerce and digital economic platforms, is also a subject that should be carefully studied.

Since COVID-19 broke out, some SCO countries have adopted preventive and control measures that have limited the flow of personnel, commodities and services, with some covertly driven by trade protectionist motives. This has become a major obstacle to the SCO’s advance of comprehensive facilitation measures in customs clearance, inspection and quarantine, logistics transportation, standards authentication, and payment and settlement. So far, while the pandemic has to some extent put under control in China and Central Asian countries, Russia and India are still under huge pressure in curbing the virus domestically. Given the protracted nature of the pandemic and the economic impact it has made, large-scale restructuring and adjustment of regional supply chains is on the horizon. To achieve the mid- to long-term objectives in regional economic development, it is all the more necessary for the SCO member states to strengthen coordinated actions and advance regional economic integration under the SCO framework.

**Lack of enforcement and inconsistency in industrial standards**

The SCO economic cooperation adheres to the basic principle of consensus in decision-making. It is the epitome of the Shanghai Spirit of equal consultation, but it has also posed some negative effects on advancing regional economic integration. Although multi-level consultation mechanisms have been set up under the SCO, including the Meeting of Trade and Economic Ministers, the Commission of Senior Officials in Charge of Trade and Economic Cooperation, and multiple special working groups, the efficiency of these mechanisms has yet to be enhanced, and the decisions made therefrom are plagued with a lack of substantial enforcement.
and binding force. Some have even been operating without any outcome. Whether in setting long-term economic cooperation goals, facilitating trade and investment, channeling funds for regional development, negotiating a multilateral investment protection agreement and identifying areas for bilateral and multilateral cooperation, or in more specific areas such as coordinating policies on market access, investment regulation, customs and taxation, or even in pushing forward the already agreed-upon demonstration projects, the SCO mechanisms are still more or less prone to a plethora of resolution without concrete implementation, an excess of bureaucracy without efficient operation, and a redundancy of coordination without a streamlined procedure, leading to discounted results despite doubled efforts. In advancing financial cooperation within the region, the SCO Interbank Consortium can at best play a coordinating and subsidiary role, rather than significantly consolidate the financial ties between member states.29

The accession of two new economies, India and Pakistan, has brought new variables to SCO coordination. India is likely to take advantage of its membership and deepen cooperation with the Central Asian member states in trade and energy. It may also leverage this platform for multilateral economic interactions to gain a geo-economic upper hand over Pakistan, and dilute China’s influence in both Central Asia and South Asia, thus alleviating the pressure of institutional competition it faces because of the advance of China-Pakistan Economic Corridor. 30 In fact, the original SCO coordination pattern once suffered an overload following India and Pakistan’s participation. The variables brought therefrom would increase the transaction costs of quality economic cooperation in the region.

To collaborate national strategies for SCO regional economic cooperation, it is urgently required that relevant standards be formulated or improved. Whether it is to change the hierarchical economic management system

in some member states to a flat cooperative system, or it is to transform the government-led economic management model into a market-driven economic interaction pattern, communication and coordination between SCO countries is undoubtedly necessary. Only by setting and refining the industrial standards in relevant sectors, and encouraging economic actors to unimpededly allocate resources in the SCO framework, can regional economic cooperation be truly institutionalized. However, the failure to coordinate economic interests between the member states has kept some decisions from being implemented, or protracted the adoption of concrete action plans.\textsuperscript{31} Coupled with the impact of the pandemic and the forced quarantine measures many countries have put in place, the fate of some feasible early harvest programs is again hung in the air. Furthermore, the initiative of building an SCO free trade area is expected to face renewed challenges.

**Paths to Expand SCO Economic Cooperation**

An important lesson from the development of SCO economic cooperation is that “true development is development for all and good development is sustainable.”\textsuperscript{32} Despite challenges, the internal momentum is still strong for SCO economic cooperation. What is needed is to keep focusing on economic development, further advance in-depth synergy of the various regional cooperation initiatives, optimize the SCO’s economic functions, strengthen infrastructure connectivity, promote smooth regional economic circulation, improve the efficiency of economic cooperation mechanisms, create a business environment that is more open, fairer and non-discriminatory, and deliver substantial benefits to all countries and their people. Standing at the start of its third decade, the SCO is endowed with lofty missions in economic cooperation and is highly expected to do more in this regard. As long as all the member states

\textsuperscript{31} Wang Zhiyuan and Shi Lan, “Major Obstacles to SCO Economic Cooperation and Policy Responses,” p.46.

firmly uphold the Shanghai Spirit, share the vision of innovative, coordinated, green, open and shared development, open up more opportunities for practical cooperation, and join hands to build a community of development for all, there is every reason to believe that the SCO has a promising future.

**Building an SCO community of development**

As the global and regional situation is undergoing complicated and profound transformation, unseen in a century and catalyzed by the coronavirus pandemic, the SCO economic cooperation faces new opportunities as well as fresh challenges. At the latest SCO leaders’ summit, President Xi for the first time proposed building a community of health, a community of security, a community of development, and a community of cultural exchanges under the SCO framework. As a roadmap for the organization’s future development, the proposal charts the course of next steps and enriches the connotations of the idea of building a community with a shared future for mankind.

For the priority areas of SCO economic cooperation, China advocates in-depth synergy between the BRI, different national development strategies and regional cooperation initiatives, and advances cooperation in the digital economy, e-commerce, artificial intelligence and smart cities. The Chinese proposal has received positive responses from leaders of other SCO member states, who indicated the willingness to strengthen cooperation in trade, investment, production capacity, transportation, energy, innovation and the digital economy to improve people’s livelihood and eradicate poverty.33 Carrying forward the Shanghai Spirit and following the aims and objectives set forth in the SCO Development Strategy until 2025 and the SCO Program of Multilateral Trade and Economic Cooperation, the SCO countries will join hands to implement the United Nations’ 2030 Agenda for Sustainable Development, and gradually achieve prosperity across the

SCO region. Given the top-down approach that the SCO has chosen ever since its establishment, the Chinese proposal of building a community of development will help cement the economic foundation for SCO solidarity and mutual trust, and boost in-depth pragmatic economic cooperation.

**Institutionalizing SCO mechanisms**

Due to the profound transformation in the world economy and the international order, the intensification of trade frictions and the setbacks of international cooperation in recent years, global economy has witnessed a sluggish growth. There is no denying that this, coupled with the coronavirus pandemic, has severely impacted SCO economic cooperation. That is why the SCO’s inherent potential for cooperation needs to be tapped, and a consensus on multilateral regional cooperation needs to be reached in an urgent manner.

To ensure the SCO’s operation efficiency, it is necessary to make the existing mechanisms more efficient in the first place. With concrete timelines and roadmaps as well as effective supervision mechanisms in place, the member states will further focus on pragmatic cooperation and truly implement the agreed-upon decisions, rather than engage in bureaucratic meetings and set up a plethora of ineffective talk-shop mechanisms without clear purposes. Given that the SCO Agreement on Facilitation of International Road Transport has been signed in 2014, the SCO countries should work on this basis, take a long-term view, and negotiate an SCO Agreement on Trade Facilitation as soon as possible, thus realizing comprehensive facilitation and an effective mechanism for regional economic cooperation. As a useful approach to improving business environment, reducing transaction costs and increasing trade efficiency, the economic benefit brought about by trade facilitation will be no less than that resulting from trade liberalization. Starting from easier tasks before touching upon

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difficult ones, the SCO countries can first work on trade and investment facilitation, and gradually realize the “free movement of goods, capitals, services and technologies” as written in the SCO Charter, thus moving a step closer to the goal of regional economic integration. In addition, the SCO needs to reorganize its economic agenda based on consistent treaties and agreements, to address chronic problems such as the establishment of an SCO Development Bank.

**Forging new economic cooperation patterns**

The COVID-19 pandemic has dealt a heavy blow to some Central Asian countries. In the short term, the SCO member states will inevitably concentrate their energy on recovering domestic economy and getting trade and economic cooperation back on track. In the mid- to long-term, however, it is also necessary for them to innovate the patterns of regional economic cooperation, and make relevant mechanisms more efficient, thus ensuring a new stage of regional economic and social development.

Endowed with rich reserves of resources such as energy, timber and fresh water, the SCO countries have world-class potential in sectors including metallurgy, mechanical manufacturing, energy processing, transportation and agricultural products. They need to open their markets wider to each other and strive for a regional single market, set up mechanisms for cooperation between local governments and between small and medium-sized enterprises, and accelerate implementation of multilateral projects to unleash intra-regional economic cooperation potential. Besides, multiple financing channels can be explored to meet the diversified needs, as a step to gradually build an SCO investment and financing regime that is suitable for regional circumstances and able to develop sustainably. Moreover, cooperation can be expanded to cover more areas including agriculture, manufacturing, services and high technology, to help forge industrial chains in sectors with regional niche advantages, like agriculture, medicine and medical services, software and cross-border e-commerce. By so doing, the regional economy can sooner achieve an upgrade and become more powerful. In practice, the SCO can consider starting from
the easier part and first identify those projects that serve common interests, to avoid the shortcoming of veto by individual members. Market mechanisms should be allowed to play a greater role, and enterprises be encouraged to become major actors in implementing projects, thus enhancing the efficiency of economic cooperation mechanisms in the region.

**Promoting the SCO governance model**

Economic globalization has been under siege in recent years by economic nationalism. The coronavirus pandemic has dealt a second strike to the globalization process, and further widened the global governance deficit. For countries on the Eurasian continent, there is still an urgent need for effective global and regional governance, especially in creating a stable international security environment that can guarantee steady socio-economic development and handle traditional and non-traditional security challenges.

As a product of trans-national governance practice, the SCO has been expanding its governance functions over the past two decades, which spill over from the launch of mechanisms for safeguarding regional security to the promotion of infrastructure connectivity and trade facilitation. In particular, as the two influential members in the organization, China and Russia both advocate multilateral governance to counter the emergence of unilateralism and protectionism. The SCO governance model and experience holds important value to global economic governance. At the 2018 Qingdao summit, the 2019 Bishkek summit and the 2020 Moscow summit of the SCO Council of Heads of State, the member states have all recognized the significance of building an open world economy and improving the global economic governance system. Over the years, regional economic cooperation has been a major pillar of the SCO. Whether in the fight against unilateral trade protectionist moves which threaten global economic stability, or in the process of maintaining and developing the WTO-centered multilateral trading system and promoting an open world economy, the organization will continue to play a crucial role.
challenges are the essential thrust, shared aspirations for stability and development are the driving force, and the leading role of China and Russia is the core support for its upgrading. In the future, SCO member states need a stronger sense of security community and more security cooperation to build an SCO community of security for all.

94 Economic Cooperation under the Shanghai Cooperation Organization: Achievements and Prospects

Yan Dexue

The year 2021 marks the 20th anniversary of the founding of the Shanghai Cooperation Organization. As an essential foundation for the SCO’s steady development, economic cooperation has played a crucial role in building regional economic ties and achieving shared prosperity, which adds endogenous momentum to regional cooperation and becomes a cooperation model among emerging economies.

123 30 Years of China-ASEAN Dialogue: Join Hands to Create a Civilization of Cooperation

Zhang Yunling

The past three decades of dialogue and cooperation between China and ASEAN has not only benefited both sides, but more importantly also turned a region congested with hostility, conflicts and confrontation into a friendly, stable, peaceful and thriving place. For the future development of China-ASEAN relations, new thinking, new strategies and new wisdom are needed for new situations, new problems and new goals.

139 Rebuilding ASEAN Centrality and the Development of China-ASEAN Relations

Zhang Jie

The ASEAN Outlook on the Indo-Pacific is the organization’s attempt to maintain its unity and centrality in the restructuring of regional order, which has been under challenge due to the US Indo-Pacific strategy and China-US strategic competition. As a gesture of support for ASEAN centrality, China’s vision for regional order needs to be aligned with the AOIP, in terms of philosophy, rules and cooperation agenda.