

SCO Economic Security Factors: Methodological Aspects

Natalya A. Sadovnikova, Olga A. Zolotareva, Svetlana G. Babich, Mikhail V. Karmanov
 Plekhanov Russian University of Economics
 Moscow, Russia

Abstract—The article discusses the economic cooperation of the member-states within the Shanghai Cooperation Organization. The SCO was originally established as an organization aimed at ensuring security in the region and countering the “three evils” – terrorism, extremism and separatism. However, over time, the economic direction began to play a bigger role in relations among countries. The authors analyze various areas of economic cooperation and conclude that the main axis of the development of economic relations within the organization is the cooperation between Russia and China.

Keywords—*Shanghai Cooperation Organization; economic cooperation; Russia; China*

I. INTRODUCTION

In modern conditions, economic issues are increasingly associated with security issues. The realization of national-state interests cannot be fully expressed without preventing threats to economic development. Mass poverty of the population leads to the radicalization of political sentiment and becomes one of the reasons for the emergence of terrorism and extremism. As correctly noted by E.A. Bragina, “the fact that constant need, which degrades and deprives people of their prospects, determines, primarily among young people, a craving for extremism, confirmed by the sad experience of many countries in recent decades” [6].

Taking into account the fact that the SCO was created, first of all, on the basis of the desire “to make a joint contribution to strengthening peace, ensuring security and stability in the region” [1], it can be stated that the SCO is mainly a security organization. On the other hand, Art. 3 of the Charter admits that the participating countries can expand the scope of cooperation by a mutual agreement. For example, Art. 8 of the Agreement on long-term good-neighborliness, friendship and cooperation of the SCO member states of August 16, 2007 guides the Organization's representatives to develop cooperation in the field of state border protection and customs control, labor migration regulation, in the financial and information spheres [7]. According to the Russian side, this document “lays the guidelines for future collaboration, creates a good basis for the comprehensive development of the SCO and enhancing interaction with both members of the organization and observer states”.

A. Methodology

The article applies a system analysis to study various aspects of economic cooperation within the SCO. The system analysis allows us to consider the issue in the aggregate significant areas of economic activity in order to derive

reliable results of the analysis. The authors study the formation of economic cooperation within the organization in chronological order in order to show the dynamics of the issue.

II. DISCUSSION

Economic security issues are given special attention in the activities of the SCO. Already at the first meeting of the leaders of the SCO member countries on September 14, 2001, held in Alma-Ata, the parties signed a Memorandum between the governments of the member states of the Shanghai Cooperation Organization on the main goals and vectors of regional economic cooperation and the creation of favorable conditions in the field of trade and investment. Since 2002, the meetings of ministers responsible for the issues of the organization's foreign economic and foreign trade activities have been regularly held.

Later, on September 23, 2003, in Beijing, the SCO Council of Heads of Government (CHG) developed a program of multilateral trade and economic cooperation, identifying the main vectors and stages of interaction and economic integration within the Organization for the period until 2020. At the same time, joint working committees were formed: on issues of electronic commerce, customs, technical conformity assessment procedures, investment promotion, expansion of transit potential, development of telecommunication technologies and energy complex. In 2004 in Bishkek, the SCO CHG adopted an Action Plan for the implementation of this Program, which included 10 areas of cooperation: trade and investment, customs, the application of regulations, standards and procedures conformity assessment, financial and tax spheres, transport, the energy sector, agriculture, science and high technologies, information and telecommunication technologies, and in the field of environmental protection, as well as 85 activities in all these areas [8]. This plan was drawn up until 2020.

A milestone in the development of economic cooperation within the framework of the SCO was the agreement reached in 2005 in Moscow on the preparation of concepts for pilot projects in the field of hydropower, a number of transport routes, the creation of fiber-optic communications, and cooperation in scientific, technical and agricultural fields. In 2006, the first “pilot” projects in such an important area as transport were launched in Dushanbe; the issue of developing the basis for the functioning of the SCO Energy Club, more intensive interaction in the field of education and culture, expanding ties in the areas of healthcare, tourism, and youth contacts were discussed.

In 2006, the first infrastructure projects began to be implemented. One can name the first two projects – the simultaneous construction of the Volgograd – Astrakhan – Atyrau – Beineu – Kungrad and Aktau – Beineu – Kungrad highways as part of the E-40 international transport corridor with the construction of a bridge across the Kigach River and the development of the transport route Osh-Sarytash-Irkeshtam-Kashgar and the Bratsvo-Dushanbe-Dzhirgatal-Karamyk-Irkeshtam-Kashgar with the construction of a transshipment terminal in Kashgar to organize multimodal transportation. The parties involved also began negotiations on the construction of high-speed information networks. The East Siberia – Pacific Ocean oil pipeline was launched with a throughput capacity of up to 60 million tons per year. Taken together, these infrastructure projects formed the basis for the idea to create the “Silk Road Economic Belt”, since it is the infrastructure formed during such projects that was considered as its basis.

As for the energy sector, in 2007 the Ministry of Energy of the Russian Federation developed and proposed to the SCO partners a draft Regulation on the Energy Club of the Shanghai Organization, and in 2011 the idea of creating such a discussion forum was already translated into practice. The Club was supposed to become an open, partly official multilateral coordination mechanism in the energy sector with the participation of governments, energy companies, financial institutions and relevant scientific organizations. The SCO’s energy cooperation development strategy involves attracting a large number of observers, since, including a quarter of the world’s oil reserves and world production, it may raise concerns that the organization’s tasks include a monopoly on energy resources.

At the meeting of ministers of the SCO member states involved in foreign economic and foreign trade on October 22, 2010 in Moscow, the parties emphasized the need to expedite the implementation of the Action Plan for the implementation of the Program of Multilateral Trade and Economic Cooperation. The main focus was on investment projects in various fields of cooperation, as well as on the Joint Initiative for the Implementation of Multilateral Economic Cooperation, the main purpose of which was to mitigate the effects of the global financial and economic crisis and create favorable conditions for the further development of the national economies of the SCO representatives.

At the next meeting of the SCO CHG in November 2010 in Dushanbe, dedicated to the prospects for cooperation in the economic sphere, V.V. Putin proposed a revision of the Action Plan for the implementation of the SCO’s Multilateral Trade and Economic Cooperation Program until 2020 in the form of a kind of “road map” that lists prospective economic projects of the SCO, as well as specific deadlines for their implementation and agencies responsible for this. In the same year, the SCO Energy Club was created, and it included not only member countries, but also observers. Thanks to such intensive development, the trade turnover of China and other SCO countries for 2013 amounted to 130 bn US dollars.

It is obvious that trade relations between the countries representing the SCO are gradually expanding, and the volume of trade is constantly increasing. Russia and China are Kazakhstan’s key investment partners; in turn, Kazakhstan, along with Russia and China, became the main co-investor of

Kyrgyzstan. China has also become the largest lender for Tajikistan. Trade turnover between the Russian Federation and Central Asian countries increased five-fold over the years 2000–2012, from \$6.2 billion to \$31.9 billion. During an official visit in September 2013, Chinese President Xi Jinping announced financial support from China to Central Asian countries amounting to more than \$50 billion for the implementation of energy and infrastructure projects.

China’s vigorous economic activity is associated with the launch of the Belt and Road initiative (BRI), which should cover most of Eurasia, connecting developing and developed countries, passing through territories that comprise 63% of the world’s population; estimated economic turnover is 21 trillion dollars. As the Chinese Xinhua News Agency noted, “The priority strategic directions of Russian-Chinese cooperation ... are projects in the energy sector and the creation of the Silk Road infrastructure”

The Silk Road economic belt is aimed at "creating a community of common interests and a joint future with political mutual trust, economic and cultural integration." [3] According to the vision of the Chinese government, the Belt and Road initiative will help develop ties, build land economic corridors and pillars of maritime cooperation” and help “improve political ties with other countries, bring together common interests and explore possible areas of mutually beneficial cooperation” [4]. The main goal of the initiative is to connect China with the outside world and explore the possibilities of cooperation. Thanks to the initiative of the modern Silk Road, China seeks to open up new areas and regions for investment and develop cooperation in such sectors as aero-, auto- and railway logistics, telecommunications, oil and gas pipelines, as well as sea ports in order to facilitate interaction and trade throughout Eurasia. At the 10th China-Europe Business Forum held in 2015, Chinese Prime Minister Li Keqiang emphasized the need to strengthen the relationship between China and Europe by improving trade and investment in order to “accelerate the creation of a single Eurasian market” and “build an interconnected Eurasian infrastructure network” [2].

The partnership between China and Russia is the central axis of the “the Belt and Road initiative. Thus, Beijing is actively seeking cooperation with Moscow in order to nullify the concerns of Russian expert circles and to convince that the economic and political rise of China cannot harm Russia’s influence in Central Asia. As the evidence of the growing Sino-Russian cooperation at the meeting of V.V. Putin and Xi Jinping held in Moscow in 2015, the parties signed a joint declaration expressing consensus on “coordinating the development of the EAEU and the Silk Road economic belt” (EAEU and BRI Interconnection). Such an agreement between Beijing and Moscow removed a potential obstacle to the development of the BRI. As noted by the rector of the Diplomatic Academy of the Russian Ministry of Foreign Affairs, E.P. Bazhanov, Russian-Chinese economic cooperation is inevitable, because China in the future will depend on energy supplies and imports of defense products from Russia, and the latter is very interested in exporting these commodity items to China and further to the Asia-Pacific countries [5].

The 21st Century Maritime Silk Road, aimed at the use of China’s coastal ports to connect the country with Europe and

the South Pacific, is an integral part of the BRI. One of the main goals of the project is to promote cooperation between regions and cities not only in the economic, but also in the socio-cultural sphere. The project will create new ports and shipping lanes to facilitate the flow of goods, technologies and people, creating opportunities for the development of these routes.

On May 8, 2015, an agreement on interconnection between the EAEU and the BRI was published on the website of the President of the Russian Federation. In this agreement, in addition to the general nature of the interaction on this project, more specific steps for its implementation were spelled out, including: expanding trade and economic cooperation, facilitating mutual investment, improving cross-country logistics, creating mechanisms to facilitate trade, and creating an enabling sphere for the growth of small and medium-sized enterprises, helping to increase trade in national currencies, strengthening cooperation among financial institutions. Thus, the document contains the idea of a comprehensive strengthening of economic cooperation between China and the Russian Federation.

In general, it should be noted that over the past few years, the tendency to increase economic activity within the SCO has noticeably intensified. Therefore, in March 2013, India, not yet a member of the organization, was interested in gas supplies to Russia and proposed to carry out an oil pipeline through Afghanistan and Pakistan to the republic, and India's largest gas company, GAIL, to extend the future Russian gas pipeline through China to India. Russia agreed to form a joint research group to study the possibility of direct land transportation of hydrocarbons from Russia to India, however, due to the unresolved security problems in the region, the implementation of the project seems unlikely. Thus, the most promising areas of cooperation within the SCO framework include the development of energy sources and natural resources, the construction of important infrastructure, joint projects in areas related to transport, communications, new technologies, and communication systems.

One of the activities of the SCO is the stimulation and support of innovative projects in which the national economies of member-states are interested. This may include joint development of technologies and their commercial implementation in the markets of the SCO countries and beyond, as well as the creation of transnational SCO-based corporations. Today, the agenda is the formation of a special structure aimed at the commercialization of promising technologies and preparation of projects for their subsequent implementation. Consolidated innovation can be the basis for the development of a joint high-tech business within the SCO. The key executors, coordinators and integrators of the results of innovation should not be scientific institutions or universities, but engineering entities. World experience shows that it is engineering companies that implement the promising developments that appear on the market, conduct research themselves and are the customers of research of universities and research organizations. The Russian national part of the SCO Business Council sees its task in forming, on the basis of the existing potential, SCO joint engineering companies. It is obvious that the creation of competitive joint engineering will provide a powerful synergistic effect for the entire SCO economy and for the cooperation of its members as a whole.

III. CONCLUSION

The problems of ensuring economic security in the activities of the SCO are becoming increasingly widespread. The participating states are taking steps to coordinate their efforts on this issue in the SCO area of responsibility. Nevertheless, on a number of issues, cooperation within the SCO has not yet reached the level of interaction required by its participants. This applies, first of all, to the formation of the institutional basis for the interaction of the member countries of the organization. Undeveloped institutional mechanisms impede the solution of such pressing issues as the implementation of joint projects in the field of energy, agriculture, the use of water resources and scientific and technical cooperation.

Interaction in the economic sphere among the countries has significantly increased in recent years. The main prospects of the SCO in this area are seen in the coordination of two major economic projects of the Belt and Road initiative and the Eurasian Economic Union. It seems significant that until recently, China, the most interested in using the Organization's mechanisms to realize its own economic interests, was the leading initiator of the development of economic relations within the SCO. Russian interests in the field of economic development also require intensifying efforts to implement joint economic projects with the SCO countries, which is especially significant given the new expanded membership of the participating states. The most promising areas are energy and the development of mineral resources; infrastructure development, including transport; introduction of advanced information and communication technologies and systems.

China, considering the states of the Shanghai Organization as a promising sales market, is of the opinion that the SCO's priorities regarding antiterrorist and economic activities should be distributed equally, and over time, the economic component will occupy a dominant place in the activities of this organization. In turn, Russia is interested in maintaining the SCO's traditional activity in the field of combating the manifestations of the "three evils" (as is adopted in the wording of the main tasks regarding security issues in the SCO): terrorism, extremism and separatism and, without unreasonable fear of China's economic hegemony in post-Soviet Asia in the near future, it is making some efforts to contain, if possible, Beijing's proposals to intensify economic cooperation within the SCO. The contradiction of the Russian position is that the goal of creating the SCO, as stated in the Charter, is to create "favorable conditions for trade and investment in order to gradually realize the free movement of goods, capital, services and technologies", which, in essence, means multi-vector development of cooperation within the organization.

It can be assumed that it is in Russia's interests to promote the creation of an SCO Bank, in whose active capital China and Russia would contribute equal shares (as in the SCO budget) and therefore would have an equal number of votes.

At the moment the conceptual approach to the overall international strategy within the framework of the SCO is still rather narrow and mainly concerns the sphere of trade, energy and transport, and the implementation of joint investment projects of regional significance. However, the common strategy of the SCO member states on international politics

cannot be ensured through economic cooperation alone, since the interests of members of the organization mostly coincide on issues of economic policy – they often clash on economic issues. This situation arose with the idea of creating an SCO bank, when, according to Russian media, the Russian Federation objected to it, which was most likely due to the fact that the Russian Federation wanted to maintain its traditional influence in the region, including in the financial sector, and did not want neighboring countries to be tied to China through its credit policy [9].

Nevertheless, nowadays, a new philosophy of development and integration within the SCO is obvious: the desire to create “decent living conditions for its citizens,” the introduction of high social standards and the convergence of value guidelines. For this, it is necessary to develop a joint socio-political and economic strategy for modernizing the SCO member states and filling it with practical content and specific projects on a bilateral and multilateral basis.

REFERENCES

- [1] Charter of the Shanghai Cooperation Organization. Retrieved from: <http://eng.sectsc.org/load/203013/>
- [2] The State Council of the People’s Republic of China, “China and Europe: Working Together for New Progress in China-EU Relations,” Keynote Speech by H.E Li Keqiang Premier of the State Council of the People’s Republic of China at China–EU Business Summit, Brussels, 29 June 2015. Retrieved from: http://english.www.gov.cn/premier/speeches/2015/07/01/content_281475138206498.htm
- [3] The National Development and Reform Commission, “China sketches out priorities of “Belt and Road” initiatives,” 2015. Retrieved from: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html
- [4] Xinhua, “China’s 2015 diplomacy focuses on Belt and Road,” 2015. Retrieved from: http://www.chinadaily.com.cn/china/2015twosession/2015-03/08/content_19750295.htm
- [5] E. Bazhanov, “China’s role in the world and Russia’s policy,” *The Herald of the Diplomatic Academy of the MFA of Russia. Russia and the World*, 2 (16), pp. 6–17, 2018.
- [6] E.A. Bragina, “United Nations Development Program 2010: Poverty Index Change,” in *North – South – Russia 2010 Yearbook*, V.G. Khoros. Moscow: IMEMO RAS, 2011, pp. 15–19.
- [7] Treaty on Long-Term Good-Neighborliness, Friendship and Cooperation of the Member States of the Shanghai Cooperation Organization of 16 August 2007, Bishkek. Retrieved from: <http://rus.sectsc.org/documents/>
- [8] Plan of Actions in support of the implementation of the Program of Multilateral Trade and Economic Cooperation of the Member States of the Shanghai Cooperation Organization. Retrieved from: <http://bc-sco.org/?level=44&lng=ru>
- [9] C. Rickleton, “Russia and China Talk Past Each Other at SCO Pow-wow,” 2014. Retrieved from: <https://eurasianet.org/russia-and-china-talk-past-each-other-at-sco-pow-wow>