

The SCO Banks: Goals and Prospects of Development in the Digital Space

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Abstract—The article deals with the problems of economic cooperation within the framework of the Shanghai Cooperation Organization. The author identifies the main lines of disagreement between the members of the organization and important areas in which it is necessary to increase cooperation among the member states. The issue of creating the SCO Development Bank is separately considered in the light of Russian unwillingness to allow Chinese capital freely flow into the Central Asian region.

Keywords—Shanghai Cooperation Organization; banking system; economic cooperation; digitalization

I. INTRODUCTION

Digitalization in the economy has a significant impact on the development of the global banking system as a whole and the banking systems of individual states.

The problems of ensuring economic security in the activities of the SCO are becoming increasingly widespread. The member states are taking steps to coordinate their efforts on this issue in the SCO area of responsibility. Nevertheless, on a number of issues, the 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.

The study is based on an integrated approach to the study of economic cooperation within the organization. The need for such an approach is that the SCO consists of eight countries that differ greatly in economic development and the characteristics of foreign trade.

II. DISCUSSION

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 New Silk Road 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 in the organization. It should be noted that the SCO consists of a rather disparate group of nation-states, especially if we consider the size of Russia (GDP – \$1657 bn), China (GDP – \$13608 bn) and India (GDP – \$2726 bn) compared to other members of the Organization and the potential for their influence and capabilities.

TABLE I. AVERAGE RATE OF EXPORT VOLUME GROWTH BETWEEN 2015 AND 2018 AMONG THE MEMBER-STATES OF THE SCO. EXPORTERS ARE GIVEN IN THE HORIZONTAL ROW AND IMPORTERS IN THE VERTICAL ONE.

	China	India	Kazakhstan	Kyrgyzstan	Pakistan	Russia	Tajikistan	Uzbekistan
China		21.3	7.6	35.6	-0.6	27.3	30	25.6
India	10		65	66	7	20.6	176.6	36.3
Kazakhstan	11.6	-4.6		18	100.3	8.6	30.3	7
Kyrgyzstan	10	-1	11		27	16.3	16.3	64
Pakistan	1.3	8.3	44.3	176.6		65	-18.3	63.6
Russia	11.3	13.3	6.6	36.3	0		-2.3	23.3
Tajikistan	-6.3	-9.6	8.6	31.6	65.3	5		156.3
Uzbekistan	23.3	25.3	21.6	19	142.3	16	238.6	

^a. Source: trademap.com

Cooperation in the SCO countries, especially between the Central Asian republics, as a whole has a rather weak institutional basis and is at the formation stage. Countries have different goals and interests, but geographical proximity makes them focus on common tasks. Further economic and political cooperation in this region, the speed and scale of these processes will depend on the willingness of countries to work together on regional contractual projects, to carry out appropriate reforms to introduce forms and methods of economic regulation adopted in world practice, as well as on the political will of governments. Special mention should be made of the need for involving the SCO in the processes of

establishing the hydropower balance of the Central Asian region [2].

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 "three evils": terrorism, extremism and separatism. 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 form "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 [9].

Implemented multilateral economic projects within the framework of the SCO are still insufficient. The reports, as a rule, provide data on bilateral cooperation, which is implemented outside the framework of the SCO (despite the fact that the SCO contributes to its activation). It is obvious that such large national economies as India and Pakistan joining the SCO can greatly stimulate the development of economic cooperation and give impetus to a number of important multilateral projects. An example of multilateral cooperation within the framework of the SCO can be the construction of the SCO high-speed information highway, in whose creation the companies from 5 countries of the organization, Russia, Kazakhstan, Uzbekistan, China and Kyrgyzstan were involved.

At the 9th meeting of the prime ministers of the SCO member countries in Dushanbe on November 25, 2010, the PRC Prime Minister Wen Jiabao put forward the Concept of creating the SCO Development Bank. In 2011, at the 10th meeting of the Council of Heads of Government of the SCO member states in St. Petersburg, Premier of the State Council of China Wen Jiabao again proposed the establishment of the SCO Development Bank. Thus, we see that initially the idea of creating the SCO Bank belonged to China. As the People's Daily noted, "The creation of the SCO Development Bank can not only respond to the consequences of the international financial crisis, but also optimize the SCO's financial resources, strengthen the SCO's internal financial cooperation, and reinforce development activities" [4].

The Chinese side strongly emphasized that it was, firstly, extremely interested in creating the bank, and, secondly, that its creation does not contradict the existence of other similar financial structures. Therefore, Deputy Foreign Minister Cheng Guoping stated in 2015 the following: "All countries support the establishment of the SCO Development Bank, this is very important for strengthening economic cooperation. As for the prospects for its creation, we can say that this new SCO bank, the Asian Bank for Infrastructure Investments and the New BRICS Development Bank: they all complement each other, stimulate the development of each other. They do not contradict each other". The Chinese side proposed to form the authorized capital of the SCO Bank at the expense of

proportional contributions from the SCO member states. The size of the contribution to the bank's charter capital should illustrate the size of the country's economy (by nominal GDP or considering purchasing power parity). According to experts, "if such rules were adopted, then China would gain complete dominance in the established financial institution" [7].

The annual meetings of the heads of relevant departments and numerous working groups have not yet led to the creation of system-forming structures – the Development Bank and the Special Account, necessary for the materialization of project activities. As noted by S.G. Luzyanin, "China objectively acts as a moderator and creator of the SCO Development Bank, acting exclusively on market mechanisms. Russia suggests clarifying the concept of the model being created, for fear of further strengthening the dominance of China in the financial and investment sphere of the organization" [6]. For its part, Moscow proposes not to create a new financial structure, but to use existing instruments as efficiently as possible. In particular, we are talking about the Eurasian Development Bank by including China in it. In general, as A. Ivanter points out, "Russian President Vladimir Putin put forward the idea of combining the One Belt, One Way project with the economic mechanisms of the Eurasian Economic Union (EAEU)" [3]. As a result, "for several years in Moscow they have been blocking the creation of the SCO Development Bank, believing that this is holding back China's financial expansion in Central Asia."

In our opinion, the creation of the SCO Bank impedes further integration within the organization. According to a senior researcher at the Center for Asia and the Middle East RISI I.N. Komissina, "since for no apparent reason one of the alliance's members can compare with China's financial capabilities, Beijing is ready to lend to the SCO countries, thereby gradually crowding out the dollar and increasing its credibility in the Organization" [5]. In addition, "the Chinese project significantly reduces the role of Russia in the SCO". It should be noted that within the framework of the SCO, the so-called Interbank Association (IBO) of the SCO member countries has been operating for many years. The establishment of the SCO Interbank Association was officially announced at a meeting of the Council of Heads of Government of the SCO member countries on October 26, 2005 the creation of which is recorded in the relevant Agreement. The Interbank Association includes the largest commercial banks of countries interested in improving the efficiency of the SCO's economic activity. Later, on June 14, 2006, the SCO Business Council was formed in Shanghai, which is a non-governmental structure in form, but with significant powers to unite the most influential representatives of the business community of the SCO countries under its auspices in order to strengthen and expand economic cooperation, organize direct contacts and dialogue between the business and financial circles of the SCO member countries, ensuring the practical implementation of multilateral projects outlined by the heads of government in the "Trade and Economic Cooperation Program" in 2003.

On the other hand, for the SCO member states, the lack of funding is the biggest problem, which requires the creation of understandable and transparent mechanisms for financing infrastructure projects. It is important to analyze the problems of the development of the banking sector, not only of the SCO member states and observer states, but also of the partner

countries, as well as the international organizations, including the IMF, UN, Asian Development Bank, and the Eurasian Economic Union. In this regard, we emphasize that it is necessary to create conditions for the development of trade and simplify investment procedures, analyze the reasons for the failure to fulfill the conditions of the signed agreements, timely resolve problems arising in the negotiation process, or prevent them, and objectively evaluate the progress of the agreements.

Russia is not interested in the comprehensive development of economic cooperation within the SCO. The reason seems to be that Russia has certain leverage over the Central Asian countries due to the fact that before the economies of these countries were connected with Russia within the framework of a single Soviet Union. The active involvement of China in the economic structures of the region, which represent for Russia its sphere of interests, is not profitable for the latter. Russia has a dual position regarding economic cooperation within the SCO. On the one hand, in all of its official declarations, Moscow advocated multilateral economic development and supported the adoption of various plans, documents and declarations. On the other hand, when it came to their implementation, Russia behaves passively, hindering the development of multilateral cooperation, as well as the mechanisms that China actively offers to finance. This is explained by the fact that Russia was worried that China would dominate the SCO Bank proposed by Beijing, as a result of which the bank was never created. Russia and other SCO member states also had concerns about the free trade zone, which China actively supported. Russia is trying to prevent a situation where China, with its huge economic potential, begins to dictate the conditions in this region. Russia is more interested in developing economic cooperation with Central Asian countries within the framework of the EAEU. Nevertheless, with the accession of India and Pakistan, a situation arises when it will be necessary to create a platform for more actively involving these countries in the organization's activities and subsequent leveling of China's economic influence on the SCO space.

The Russian economy in many respects does not reach the Chinese, that is why, the volume of foreign trade with China is very modest. For the same reason, in the framework of the SCO, Russia has certain problems in the development of its international economic relations. The state of the Russian economy has a fundamental impact on the structure of exports of Russian goods. If in 1998 machine-building prevailed in export volume in Russia, in 2013 its share decreased to 1%. Nowadays Russian trade with China exclusively focuses on raw materials, mainly energy carriers (in recent years, all the largest and most significant Russian deals with China have been concluded either in oil or in gas sphere). In other words, Russia exports energy to China, and receives Chinese engineering products. The situation is similar for other SCO countries: they are sending metals and energy to China, and consumer goods are being sent to them. Therefore, it is clear that in order to reduce China's economic dominance and engage in equal dialogue with China, Russia should develop its domestic economy.

III. CONCLUSION

Members of the organization are required to seek new common ground in economic cooperation, to develop new

joint projects. For example, in the field of agriculture, joint development and implementation of cooperation projects in a number of key areas, the exchange and implementation of agricultural innovations, and the simplification of the exchange of agricultural specialists are required. In the field of technology, it would be advisable to conduct joint scientific and practical research, various seminars, training programs, and exhibitions; comprehensive training for joint innovation laboratories and scientific and technical centers. Another urgent task is the need to create an e-commerce platform within the SCO [1].

It seems that another reason for the inhibition of economic cooperation in the SCO is the lack of a targeted funding mechanism for multilateral projects. At the same time, the SCO budget is quite modest and not designed for project financing. It has long been proposed to create a SCO Fund or Development Bank, but it has not yet been created, however, a project to set it up has been spelled out in the SCO development strategy until 2025.

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