



## THE SCO FREE TRADE AREA PROJECT: PROBLEMS AND PROSPECTS

Currently, the regional economic integration has become one of the main conspicuous issues in the global economy. In the recent years, the number of the free trade regime agreements signed between developing countries with transition economies and developed countries has rapidly increased. To date, the number of various agreements on regional trade regimes, which passed the World Trade Organization (WTO) notification, have already reached 199.

After joining the WTO, China has been actively participating in the process of regional economic integration. The Chinese Government considers the free trade areas as a new platform to further opening up to the outside world and speeding up domestic reforms, as well as particularly an important supplement to the multilateral trading system. Currently, China has already completed a number of talks on a free trade deal by signing Free Trade Agreements (FTA) with Switzerland, Costa Rica, Peru, Singapore, Chile, Pakistan, Georgia including Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong, the Mainland and Macao and Economic Cooperation Framework Agreement (ECPA) between the Mainland and Taiwan. Moreover, Beijing inked agreements establishing Free Trade Area with Australia, Korea, Iceland, New Zealand and ASEAN. Furthermore, China launched other negotiations on free trade deals with Sri Lanka, Maldives, Norway including China-Japan-Korea FTA, China-Gulf Cooperation Council FTA and Regional Comprehensive Economic Partnership (RCEP). As a result, for the last year, the overall level of China's foreign trade grew by 23.4% from \$2.54 trillion to \$3.66 trillion China's trade turnover with these countries covers 25% of the Chinese total foreign trade. For instance, in 2016, the most significant increase (65.8%) in the trade turnover was achieved between China and Chile, followed by ASEAN and Pakistan with 25.8% and 24.6% increase in the trade turnover with China respectively.

It is worth mentioning that China pays great attention to the development of regional economic cooperation within the Shanghai Cooperation Organization (SCO), which was founded in Shanghai in 2001 by China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. Actually, to date the heads of the SCO member-states signed and approved the following documents on regional economic cooperation: (a) Memorandum among Governments of SCO member states on the basic goals and directions of regional economic cooperation and launch of process on creating favorable conditions in the field of trade and

investments; (b) Program on multilateral trade and economic cooperation; (c) Implementation plans to the programs mentioned above. With assistance from the Asian Development Bank and the United Nations Economic and Social Commission for Asia and the Pacific, the SCO members developed an intergovernmental agreement on facilitating international road transport. All these documents constitute necessary legislative basis for the SCO regional economic cooperation.

Moreover, in order to promote the economic development of the SCO member-states and to deepen their economic cooperation, at the 2005 Astana Summit China represented by the President Hu Jintao offered \$900 million preferential buyer's credit loans to the other SCO members. In 2006, the China Import and Export Bank signed preferential buyer's credit with Kazakhstan, Kyrgyzstan and Tajikistan providing \$1.2 billion of preferential buyer's credit in 2007. A decision on allocating another \$10 billion governmental loans was announced by the President Hu Jintao at the 2012 Shanghai Summit.

According to the Chinese customs statistics, the trade turnover between China and the SCO member-states increased from \$12.15 billion in 2001 to \$67.47 billion in 2015 showing 6.6-fold increase. According to the Ministry of Commerce of China, in 2003 the amount of the Chinese foreign direct investments (FDI) to the SCO member-states amounted to \$59 million reaching \$534 million in 2015. Therefore, it could be stated that since the establishing of the SCO, its member-states have become China's main partners in foreign investment.

However, despite these positive developments serious obstacles to further progress in strengthening economic cooperation still remain. To date, high customs tariffs are the main barriers for deepening trade relations among the SCO states. Therefore, in order to minimize the tariff and non-tariff barriers, as well as to facilitate trade and investment in the region, the SCO members put the creation of the Free Trade Area on the agenda. It is considered that creating the Free Trade Area would stimulate the development of the economies of all the SCO members, increase the employment rate and welfare in the region.

Moreover, it should be noted that the trade turnover between China and the SCO observer-states grew even faster than the trade turnover with the full-fledged member-states of the organization. For instance, the total amount of trade of China with India, Pakistan, Mongolia and Iran increased from \$16.09 billion in 2003 to \$68.15 billion in 2015.

Actually, it is planned that Pakistan and India would achieve their full membership in the SCO during the upcoming Summit in Astana this year. Therefore, taking into account the fact that China has already established the FTA with Pakistan and launched joint research with India in creating the FTA it could be determined that China has formed some preconditions for the Free Trade Area creation within the framework of the SCO. Furthermore, the fact that the majority of the SCO members successfully joined to the WTO, launching the process of the tariffs reduction and investment liberalization, provides additional prerequisites for the establishment of the Free Trade Area.

According to the forecasts made by the Chinese Academy of Foreign Trade and Economic Cooperation, after the creation of the SCO Free Trade Area, the overall trade turnover among the SCO member-states will increase by \$34.18 billion (27%). According to the predictions, exports among the SCO member-states will grow by 10%-20% on average, which significantly exceeds the effect of creating favorable conditions for trade and investment. In addition, annual growth of the SCO member-states' GDP will be 0.5%-1.8% in average, while the employment rate will grow at an average rate of 1%-2.3%.

Therefore, it is quite understandable that Beijing is committed to take advantage of the economic cooperation within the framework of the SCO. In order to export its products, labor and capital to the neighboring countries China offered a variety of projects including the establishment of the SCO Development Bank and the creation of the free trade regime. Nevertheless, to date these initiatives have not been fully welcomed by the SCO member-states. In fact, during the last SCO Summit held in Tashkent, the parties agreed to provide economic assistance in order to prevent economic slowdown among the SCO members. The sides did not specify details about the future possibility of establishing the Free Trade Area.

It could be concluded that the parties have still concerns about the possible pressure of the Chinese imported goods on their domestic markets. However, it should be admitted that there is a possibility that forthcoming enlargement of the SCO by India and Pakistan would have positive effects on the SCO Free Trade Area proposal, since both Pakistan and India have strong economic motivations. In this light, all these developments could increase the chances of the SCO Free Trade Area project implementation.

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## Politics, Foreign Affairs and Security

- During the joint meeting of the Parliament's chambers of Kazakhstan, the parliamentarians approved a package of amendments to the Constitution to reduce presidential powers. The 23-article bill was passed nearly unanimously by the Parliament, with only 1 lawmaker out of 105 lawmakers failing to vote in favor. The President Nursultan Nazarbayev had already endorsed the proposed changes.
- The President of Turkmenistan, Gurbanguly Berdimuhamedov, signed a decree, according to which Dovletdurdy Hajiyev was appointed as the Chairman of the Turkmennebit state oil concern. In addition, Shahym Abdrahmanov was appointed as the Chairman of the Turkmengeology State Corporation.
- During his official visit to Ashgabat, the President of Uzbekistan, Shavkat Mirziyoyev and the President of Turkmenistan, Gurbanguly Berdimuhamedov, discussed further prospects of deepening bilateral relations and exchanged views on topical issues of the international and regional agenda. As a result of the meeting, the two leaders signed an Agreement on strategic partnership and a number of bilateral documents aimed at further development of cooperation in various areas.
- The OSCE Permanent Council reported that the EU would not recognize the referendum in the Nagorno-Karabakh region, which was held on February 20, 2017. It was stated that the results of the referendum can not affect the status of Nagorno-Karabakh region and the process of peace talks held by the OSCE Minsk Group.
- The Foreign Ministry of Turkey summoned the German Ambassador to Ankara, Martin Erdmann, over the cancellation of meeting between Turkey's Justice Minister, Bekir Bozdag, and the Turkish citizens in the southern German town of Gaggenau.
- The United Nations (UN) Special Envoy for Syria, Staffan de Mistura, announced that as a result of 4<sup>th</sup> round of the UN-mediated intra-Syrian talks between the government and opposition factions held in Geneva, the participants worked out a clear agenda for Syria settlement, reflected by four baskets of topical issues for crisis resolution, namely,

governance, constitution, elections and counterterrorism.

## Economy, Finance and Energy

- According to Turkey's Petkim petrochemical complex, as of January 1, 2017, the assets of the company increased by 14.8% and stood at 6.27 billion Turkish lira (\$1.68 billion) as compared to 5.46 billion Turkish lira (\$1.47 billion) in 2015. Petkim's net profit increased by 14.5% and reached 731.7 million Turkish lira (\$196.7 million) in 2016.
- The State Oil Fund of Azerbaijan (SOFAZ) reported that revenues gained from the project of development of the country's Azeri-Chirag-Gunashli (ACG) block of oil and gas fields totaled \$123.1 billion from early 2001 to March 1, 2017. A contract for development of ACG block of oil and gas fields was signed in 1994. The proven oil reserves of the block is over 1 billion tons.
- According to the data of the Russian Energy Ministry, the country's February oil output was unchanged since January at 11.11 million barrels per day. With its cuts since October 2016, the levels have remained at 100,000 barrels per day or a third of what was pledged by Moscow under its agreement with the Organization of the Petroleum Exporting Countries (OPEC).
- Azerbaijan's state oil company SOCAR reported about commissioning a new well at the Oil Rocks offshore field in the Azerbaijani sector of the Caspian Sea. It was also noted that SOCAR would additionally produce 4,380 tons of oil annually through commissioning of a new well. SOCAR produced 645,100 tons of oil at Azerbaijan's offshore and onshore fields in January 2017, as compared to 647,000 tons in January 2016.
- During his official visit to Bishkek, the President of Russia, Vladimir Putin, and his Kyrgyz counterpart, Almazbek Atambayev, discussed prospects of bilateral cooperation in energy sphere. As a result of the meeting, the parties agreed that the Russian state energy company Gazprom would invest 100 billion rubles (\$1.73 billion) in the development of the gas transportation system in Kyrgyzstan. It was also stated that in 2016 Russia supplied 1 million tons of duty-free fuel to Kyrgyzstan.

- The National Bank of Kazakhstan (NBK) reported that in order to provide the financial stability and recovery of the country's banking sector, the NBK together with the Kazakhstani Government, the National Wealth Fund Samruk-Kazyna, the Fund of Problem Loans, the Halyk Bank, the Kazkommertsbank and the BTA Bank signed the Memorandum of Understanding (MoU). According to the MoU, the Halyk Bank plans to acquire the shareholding from the Kazkommertsbank. In order to support the performance of the deal, the Government of Kazakhstan and the NBK announced about their intention to provide financial support through the acquisition of the problematic assets of the Fund of Problem Loans.
- The President of Kazakhstan, Nursultan Nazarbayev, signed a decree, according to which Kazakhstan's National Fund would transfer over 1.092 trillion tenge (over \$3.4 billion) to the state budget for the recovery of the country's banking sector.

## Society and Culture

- During his visit to Tashkent, the UN Assistant Secretary-General for Political Affairs, Miroslav Jenca, and the President of Uzbekistan, Shavkat Mirziyoyev, discussed plans for further strengthening of partnership with the UN and its organizations. The visit was made on the occasion of 25<sup>th</sup> anniversary of Uzbekistan's joining the UN. During the meeting, Shavkat Mirziyoyev expressed their intention to take part in the next session of the UN General Assembly to be held in September 2017 in New York.
- The President of Kazakhstan, Nursultan Nazarbayev, signed the Law on ratification of the Agreement between the Government of Kazakhstan and the United Nations Educational, Scientific and Cultural Organization (UNESCO) on establishing the Central Asian regional glaciological center of 2<sup>nd</sup> category under the auspices of the UNESCO.
- The Kazakh Airlines Air Astana reported about its plans to increase the frequency of flights to Georgia starting from June. Currently, Air Astana operates two flights per week on both Almaty-Tbilisi and Astana-Tbilisi destinations.