



THE FUTURE OF SHANGHAI COOPERATION ORGANIZATION: CHALLENGES AND PROSPECTS

The Shanghai Cooperation Organization (SCO) grew out of the Shanghai Five, which was founded in April 1996 by China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan. After the inclusion of Uzbekistan in June 2001, the SCO became a regional security organization. With the accession of India and Pakistan as full members in June 2017, the number of the SCO member states has grown to eight. Spreading from Central Asia to the Indian subcontinent, the SCO has expanded to a large area that accounts for about 44% of the world's population and 25% of the world's GDP. Iran, Afghanistan, Belarus, and Mongolia currently enjoy the observer status, while Turkey, Azerbaijan, Armenia, Cambodia, Nepal, and Sri Lanka hold the status of dialogue partners in the SCO. On June 9-10, 2018, the first SCO summit after India and Pakistan became full members was held in Qingdao, China. During the Qingdao Summit, the representatives of the SCO's eight full members, four observer states and six dialogue partners discussed strengthening joint efforts in the fight against terrorism, extremism, discrimination and drug offenses, as well as improving regional cooperation in such areas as trade, economy, culture, education, technology, health, tourism and sport. The parties also discussed important regional and global issues such as the situation in Afghanistan and Syria, the future of the Iranian nuclear deal and denuclearization of the Korean Peninsula. The Qingdao Summit indicates that the SCO is moving towards the goal of becoming an organization that can play an important role in shaping a new political and economic order both regionally and globally. In this context, the ongoing expansion of the SCO's area of responsibility resulting from the accession of new members is the most important issue for the future development of the organization.

Regional cooperation in the field of security has been in the focus of the SCO's activity since its foundation. In fact, despite the promotion of cooperation in trade, economy, investment, energy, technology, transportation, culture and education, the security dimension will continue to remain the main cooperation area and one of the short-term and long-term strategic goals of the SCO. For example, the security issue mentioned in the SCO Development Strategy until 2025, which was adopted in 2016 at the Tashkent

Summit, also gained importance in the documents signed at the Qingdao Summit this year. The organization has made considerable progress in regional security cooperation, including in the fight against separatism and terrorism, illegal arms trade and drug trafficking. In this regard, the SCO Regional Anti-Terrorist Structure, headquartered in Tashkent, operates as one of the most effective mechanisms of the organization.

Despite the fact that the SCO members are primarily interested in cooperation in the field of security, the admission of India and Pakistan, which are attractive markets with their dense populations and rapidly developing economies, could accelerate the trade and economic cooperation between the parties within the organization. Moreover, it could be expected that due to the rapid economic growth of China in recent years, the Chinese economic presence in the SCO member states will only increase. Greatly appreciating the opportunities of economic cooperation within the framework of the organization, China increases the amount of investment and loans to its SCO's partners. For instance, China has provided loans of more than \$100 billion to the SCO member states since 2001. At the Qingdao Summit, Beijing announced that it would provide 30 billion yuan (about \$4.7 billion) in loans to member states under the SCO framework. China, which has become the main trade and investment partner of other SCO members, also proposed setting up a free trade zone within the SCO. Furthermore, it can be said that the SCO has become an important platform for the Chinese Belt and Road Initiative (BRI). In fact, in each declaration issued after the SCO summits since 2013, the member states supported the implementation of the BRI project.

Having expanded from the Shanghai Five to the Shanghai Eight, the SCO will presumably continue to expand in the coming period. China, which has always shown a positive attitude towards the new SCO membership, constantly emphasizes that the SCO's door is open to new members. At present, being the observer states, Iran and Afghanistan have applied for the full membership. Israel, Qatar, Bahrain, Egypt and the Maldives have expressed their desire to become a dialogue partner, while Syria and Bangladesh has shown their intention to become the observer states.

Since Iran has good trade and economic relations with the majority of the SCO countries, Tehran has a better chance of becoming a full member of the SCO than the rest of the applicants. Moreover, it could be expected that a strategic triangle of Iran, China and Russia, which are all under Western sanctions and pressure, will further strengthen after the unilateral withdrawal of the United States from the Iran nuclear deal. As for Afghanistan, which obtained the observer status in 2012, the SCO-Afghanistan relations have been developing within the framework of the SCO-Afghanistan Contact Group, which was established in 2005. However, the continuing internal conflict and the U.S. military presence make it hardly possible for Afghanistan to become a full member of the SCO in the short-term. On the other hand, the view has been expressed that the experience gained since the establishment of the SCO-Afghanistan Contact Group might be used to launch the SCO+X platform in the upcoming period.

In addition, in 2016, Russia and China showed a positive attitude towards the issue of Turkey's membership in the SCO. The SCO Energy Club, founded in 2013, was for the first time chaired by Turkey in 2017. However, being an EU membership applicant and NATO member state, it would be rather problematic for Turkey to apply for the full SCO membership. On the other hand, the situation with the application of Israel is also unclear. In fact, the geopolitical tensions with Iran and Pakistan considerably complicate the issue preventing Israel from becoming the SCO's dialogue partner. As for Syria, the application of Damascus may not be accepted due to the ongoing civil war and terrorist incidents in the country.

It could be concluded that there are still a number of unsolved problems between the SCO members. For example, years-long India-Pakistan tensions and China-India border disputes that have risen again last year are still on the regional agenda. However, after the expansion there is a need to find a new power balance within the SCO keeping in mind possible further enlargement. In summary, it can be said that the future of the SCO, which has entered a new phase of its development, will strongly depend on political will of the parties to strengthen cooperation and resolve issues of mutual concern, especially in ensuring regional security.

Politics, Foreign Affairs and Security

- According to the Supreme Electoral Council of Turkey, incumbent President Recep Tayyip Erdogan won a new mandate in the presidential election after the first round of voting by winning 52.59% of votes. His main rival Muharrem Ince from the People's Republican Party won 30.64% of votes. The voter turnout reached 88.19%. According to the parliamentary election results, five parties passed the 10% threshold. The ruling Justice and Development Party won 42.56% of votes, while its allied Nationalist Movement Party secured 11.1% of votes. The main parliamentary opposition Republican People's Party, the Peoples' Democratic Party and the Good Party got 22.64%, 11.7% and 10%, respectively.
- During his official visit to Minsk, President of Russia Vladimir Putin met with President of Belarus Alexander Lukashenko to discuss current issues of bilateral cooperation and sign the Union State's 2018-2019 Program of Coordinated Foreign Policy Steps.
- During his official visit to Minsk, Foreign Minister of Azerbaijan Elmar Mammadyarov met with Foreign Minister of Belarus Vladimir Makei to discuss the further deepening of cooperation between the two countries and exchange views on the issues of international and regional agenda.
- During his official visit to Moscow, President of South Korea Moon Jae-in met with President of Russia Vladimir Putin to discuss the opportunities for initiating joint economic projects. As a result of the visit, the parties signed a package of agreements, including the joint statement on a free trade zone for services and investments, memorandums of understanding on the establishment of a Russian-South Korean innovation platform and an interregional cooperation forum.
- During his official visit to Dushanbe, Energy Minister of Iran Reza Ardakanian met with Foreign Minister of Tajikistan Sirojiddin Aslov to discuss the ways to develop cooperation between the two countries in the fields of energy and extraterritorial farming.
- During his official visit to Dushanbe, Interior Minister of Afghanistan Wais Ahmad Barmak met with Interior

Minister of Tajikistan Ramazon Rahimzoda to discuss the expansion and strengthening of cooperation between the law enforcement agencies of the two countries. In particular, the issues of regional security and joint fight against terrorism, extremism, drug trafficking, and other crimes were discussed.

Economy, Finance and Energy

- The State Duma of Russia passed amendments to the law on the federal budget for 2018 and 2019-2020 planned period. Amendments envisage an increase in budget revenues by 1.82 trillion rubles (\$29.3 billion) in 2018, particularly through a surge in oil and gas revenues of 1.76 trillion rubles (\$28.3 billion) and a rise in non-oil and gas revenues amounting to 59.8 billion rubles (\$964 million). Revenues will increase by 1.7% to 17.4% of GDP. Budget expenditures will go up by 61.9 billion rubles (\$998 million) in 2018 to 16.6 trillion rubles (\$267.8 billion), or 16.9% of GDP. The deficit of the federal budget will turn into a surplus this year amounting to 481.8 billion rubles (\$7.7 billion), or 0.5% of GDP.
- According to the trade mission of Russia in New Delhi, the country's exports to India increased by 40.1% in January-April 2018 compared to the same period last year, reaching nearly \$2.2 billion. Russia's imports from India increased by 10.7%, to \$1.02 billion.
- According to the State Statistics Agency of Tajikistan, the trade turnover between Uzbekistan and Tajikistan in January-May 2018 experienced a twofold increase to \$94 million compared to the same period last year. Tajikistan's exports to Uzbekistan amounted to more than \$54 million, while Uzbekistan's exports to Tajikistan was about \$40 million.
- According to the Central Bank of Azerbaijan, the surplus of the current account of the country's balance of payments amounted to \$1.56 billion in January-March 2018 compared to \$380.2 million in the same period of 2017. The surplus of the current account of Azerbaijan's oil and gas sector amounted to \$2.84 billion in January-March 2018. During the reporting period, the reserve assets of Azerbaijan increased by \$1.30 billion.
- According to Deputy Minister of Agriculture of Kazakhstan Arman

Yevniev, the area of irrigated agricultural lands in the country will increase to 3.5 million hectares, while the share of irrigated land in the total crop area will increase from 7% to 16%.

- According to the Automobile Manufacturers Committee of the Association of European Businesses, General Motors Uzbekistan sold more than 5,180 Ravon cars in Russia in January-May 2018, which is 40% more compared to the same period of 2017. The share of General Motors Uzbekistan in the Russian car market reached 0.7% in January-May 2018 compared to 0.6% in January-May 2017.

Society and Culture

- During his official visit to Astana, Deputy Head of the State Inspectorate of Uzbekistan for Supervision over Safety of Operations Oleg Lim met with Chairman of the Civil Aviation Committee of the Ministry of Investment and Development of Kazakhstan Talgat Lustaev and signed an agreement on increasing the number of bilateral flights. The agreement aims to increase the number of flights on the existing Astana-Tashkent route from four to six flights a week and on the Almaty-Tashkent route from seven to ten flights a week.
- According to the World Bank, its project portfolio in the water management sector of Uzbekistan consists of five projects worth \$680 million. It is noted that the World Bank cooperates with the government of Uzbekistan in the water sector, providing funding and technical assistance for developing the strategy and regulatory framework, strengthening the institutional capacity of relevant organizations and modernizing water infrastructure. The projects are aimed at improving water supply and sanitation services for two million people in eight regions of the country.
- According to the National Bank of Kyrgyzstan, the country's migrants working abroad have transferred more than \$700 million to their homeland since early 2018, which is \$84.5 million more than in the same period last year. It is noted that about 95% of all remittances come from Kyrgyz migrants working in Russia. Over the past year, Kyrgyz migrant workers transferred about \$2.4 billion to their homeland, \$2.2 billion of which were sent from Russia.