

## COOPERATION BETWEEN KAZAKHSTAN AND THE SHANGHAI COOPERATION ORGANIZATION AS A FACTOR IN THE DEVELOPMENT OF FOREIGN ECONOMIC ACTIVITY TODAY

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The Shanghai Cooperation Organization (SCO or Organization), which was created in order to strengthen regional security, enhance good-neighborly relations, and encourage multi-vector and multifaceted interaction among the member states, has become a major regional

structure with broad opportunities for establishing mutually beneficial relations in the commercial and economic sphere. The immense territorial, human, raw material resource, and transport-transit potential of the states participating in this Organization is an important factor of successful cooperation in this area. The SCO Secretariat and specialized economic institutions aim to promote cooperation in such vectors as foreign trade, investments, transportation and communications, energy, bank relations, agriculture, the environment, and the scientific-technical and social spheres.

Within the SCO, Kazakhstan has succeeded in achieving results that are promoting the development of the foreign sector of its own economy and its gradual integration into the world economy. However, there are several problems and unresolved issues in the Organization's activity that are hindering the development of foreign relations and putting the brakes on Kazakhstan's foreign economic activity. Keeping in mind that the development of relations with the SCO meets the country's interests and is extremely promising for its foreign economic activity, economic cooperation with the Organization must be strengthened.

## I. Kazakhstan and the SCO: Main Results and Problems of Cooperation

When carrying out its foreign economic activity, Kazakhstan strives to present itself as an active and full-fledged member of the SCO. This is confirmed by the nature of its participation, position, and the results the country has achieved during the undertakings carried out by this Organization.

1. **Kazakhstan's participation in SCO documents.** Kazakhstan is party to the Organization's founding, program, and regulating documents.
  - 1.1. **The declaration on the founding of the SCO** was passed by the heads of the member states on 15 June, 2001 in Shanghai. The Organization aims to enhance mutual trust and good-neighborly relations among its partner states, encourage effective cooperation among them in various areas, and promote joint efforts to maintain peace, security, and stability in the region. According to its Declaration, the Organization, enjoying immense potential and broad opportunities for advancing mutually beneficial cooperation among the member states, can ensure the development of cooperation in the commercial and economic sphere and its diversification on a bi- and multilateral basis.
  - 1.2. **The SCO Charter** was signed in June 2002. This document, being the Organization's charter, sets forth its tasks: development and encouragement of efficient multifaceted regional cooperation, promotion of comprehensive and balanced economic growth and cultural development in the region, coordination of approaches during integration into the world economy, and development of relations with other states and international organizations.

In order to promote cooperation, the SCO countries shall not only exchange legal information, but also expand the sphere of interaction.
  - 1.3. **The memorandum on the main vectors of regional economic cooperation and on creating favorable conditions in trade and investments** was signed at the first meeting of heads of government of the SCO states in Almaty in September 2001 and forms the basis for establishing its economic component. It stipulates that the development of trade and investments will be ensured by bringing the economies of the member states closer together on the basis of complementarity, as well as by carrying out cargo and passenger transport operations, including transit, developing checkpoint infrastructure, harmonizing technolog-

ical and commodity standards, exchanging regulatory and legal information, removing trade barriers, and attracting investments.

The protocol to the memorandum notes that strengthening commercial and economic cooperation will not only promote the economic development of the member states, but also, which is extremely important, maintain regional security and stability.

**1.4. The program of multifaceted commercial and economic cooperation among the SCO member states** was approved by the Council of Heads of Government in September 2003.

The document envisaged the solution of several important tasks, including creating conditions for ensuring that all economic entities have equal opportunities and guarantees in production activity, drawing up joint programs in commercial and economic cooperation, creating a favorable investment climate, developing interbank cooperation and financial relations, further developing transportation and communication infrastructure, improving customs procedures, and rendering assistance in establishing contacts between economic entities in business. It should be noted that it was the Kazakh side that prepared the first version of this Program, which was taken as the basis for further examination.

**1.5. The action plan for implementing the Program of Multifaceted Commercial and Economic Cooperation among the SCO Member States**, passed in September 2004, was the

logical continuation of the development of the Organization's contractual-legal basis. Within the framework of this plan, special working groups were created and began functioning to develop electronic trade, customs cooperation, cooperation in applying technical regulations and standards, transit potential, and investment interaction. In compliance with the economic cooperation priorities stipulated earlier, the document also envisaged more than 120 joint projects.

**1.6. Declarations of the heads of states.** The last one is the **Dushanbe declaration of the heads of SCO member states** adopted on 28 August, 2008 during the Organization's regular summit. The document notes that the SCO is in favor of broad cooperation in resolving resource support problems and achieving global development goals, overcoming the technological gap between countries, and eradicating poverty by providing all the states with equal access to the advantages of globalization.

Whereby in the conditions of the world financial and economic crisis, it is particularly important for the member states to carry out a responsible fiscal policy, exercise efficient control over the movement of capital on their territory, and ensure food and energy security.

**1.7. Participation of Kazakh structures in drawing up documents determining the cooperation mechanism in the SCO.**

The participation of analytical and administrative structures in drawing up drafts and proposals for amendments and addenda to the provisions "Criteria for Accepting New SCO Member States," "On the Status of Dialogue Partner," and "On the Status of Observer" can be considered an important result of Kazakhstan's activity in the SCO. Such an important document as the Asian Energy Strategy was drawn up by the Kazakh analytical structure.

Kazakhstan has signed a total of more than 30 documents within the framework of the SCO.

- 2. Holding the Organization's summit in Kazakhstan.** A meeting of the heads of the SCO member states was held in Astana in July 2005, during which it was decided to establish an institution of permanent representatives of the member states under the SCO Regional Antiterrorist Structure (RATS) and approve a Concept of Cooperation in Fighting Terrorism, Separatism, and Extremism and a Provision on Permanent Representatives of the Partner States under RATS.

At the end of the summit the Astana declaration of heads of state was adopted, which indicates that the SCO member states will consistently expand their cooperation in the economic vector in order to raise the potential of the fight against terrorism, separatism, and extremism, being guided in so doing by the Program of Multifaceted Commercial and Economic Cooperation.

3. **The activity of the Kazakhstan representative as SCO secretary general** is an important element of the country's active and full-fledged participation in the Organization. Since January 2007, the Kazakhstan representative has occupied the post of secretary general. During this time, two of the Organization's summits have been held: in Bishkek (2007) and Dushanbe (2008), a meeting of the Council of Heads of Government in Tashkent (November 2007), and several other planned undertakings, during which the Bishkek and Dushanbe declarations, joint communiqués, and an intergovernmental agreement on cooperation and mutual assistance in customs affairs were signed. Moreover, new structures and the staff members of the RATS Executive Committee were approved.
4. **Opening of the Khorgos International Center of Border Cooperation. The Khorgos International Center of Border Cooperation** (Khorgos ICBC), created in 2005 between Kazakhstan and China, plays an important role in commercial and economic cooperation among the SCO countries. According to experts, the ICBC will become one of the basic elements in the region's infrastructure in this sphere.
5. **Kazakhstan's participation in the SCO's economic institutions.** Kazakhstan is a member of the SCO's Business Council and Interbank Association.
  - 5.1. **The SCO Business Council (SCOBC)** was created in Shanghai in June 2006. It is supposed to perform expert work within the Organization and draw up recommendations in promising vectors of interstate commercial and economic cooperation.
 

Kazakhstan has been taking active part in the SCOBC's various undertakings. Mechanisms have been drawn up for regulating and coordinating commercial and economic cooperation and investment issues are regularly discussed.
  - 5.2. **The SCO Interbank Association** was created in compliance with an agreement on interbank cooperation signed in Moscow in October 2005 by authorized representatives of the banks of the SCO member states. It envisages interaction in financing and participation in investment projects. This form of cooperation is recognized to be the most effective and flexible.

However, there are several problems in Kazakhstan's foreign economic activity within the SCO.

1. **The Organization's internal contradictions** which hinder Kazakhstan's full-fledged cooperation with the SCO include:
  - Kazakhstan's uncoordinated cooperation with the SCO states;
  - differences in approaches and mechanisms for liberalizing foreign trade and investment activity;
  - the presence of EurAsEC and other integration economic structures in the region that undermine the SCO's influence in this sphere;
  - China's commodity expansion with respect to Russia and the Central Asian countries, which presents a threat to their economies;
  - the absence of balanced economic cooperation in the SCO countries.

These contradictions are generated by the political interests of the Organization's strongest member states and their unwillingness to compromise when resolving commercial and economic cooperation issues. So there is a greater danger of stagnation.

**2. High differentiation of the level of economic development of the SCO countries.**

An important factor undermining Kazakhstan's economic cooperation with the SCO countries is the different level of their development. The highest average annual rates of economic growth were noted in China where they reached more than 11%. Then come Kazakhstan and Russia with 10% and 8%, respectively.

Tajikistan, Uzbekistan, and Kyrgyzstan have the lowest indices with 7%, 6%, and 5%, respectively. This causes a shortage of goods in the markets, which has a negative effect on the countries' trade cooperation.

This situation is hindering integration on the way to achieving the economic level of the world market. So experts, considering it necessary to accelerate development of the infrastructure component, say that the efforts of such regional nations as Russia and China in the infrastructure development of their territories are expanding the domestic markets and markets for neighboring Central Asian countries (including those that do not have access to the sea), which are experiencing obvious difficulties in adapting to globalization. Large national companies and banks of Russia, the Central Asian countries, and China are capable of significantly enriching cooperation among the three sides. There is an obvious need for large collective infrastructure development projects. This requires a SCO bank of development, a joint investment committee, or something else along these lines.<sup>1</sup>

**3. Obstacles to the development of Kazakhstan's foreign economic relations with other SCO members.** The situation that has developed in economic cooperation among the SCO countries can be examined on the basis of four main indices—the state of customs procedures, environmental protection, unification of standards, and mobility of business. It leaves much to be desired.

Several measures must be taken to correct the existing situation. For example, according to an expert forecast, increasing spending on improving customs affairs by only 10% will increase the trade volume among the countries by more than 10 billion USD.

There is also a great difference between the plans declared in the basic documents and their implementation in practice, which is hindering and complicating the development of the Organization's foreign economic relations. The cooperation mechanisms are still underdeveloped and need further work.

**4. Kazakhstan's insufficient use of the region's transportation and transit potential.** Kazakhstan is not using the region's transportation potential to its fullest benefit. Transit routes going to China's eastern regions and Russia's northern and western regions are not being used.

Several other factors also play a negative role:

- Kazakhstan's insufficient interaction with other countries of the region in raising the transit potential;
- cargo shipments around the region are very slow and poorly coordinated;
- incorrect tariff policy regarding cargo shipments;
- unsatisfactory technical state of transportation means;
- low technical level of railroads in the region.

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<sup>1</sup> See: A. Sapitskiy, A. Salykova, *Ekonomicheskaja regionalizatsiia i problemy ShOS (teziy)*. *ShOS: stanovlenie i problemy razvitiia*, Documents from an international conference, Institute of Management, Economics, and Forecasting, Almaty, 2005.

These factors are preventing Kazakhstan from enhancing integration of the region's transportation system and fully developing foreign economic activity.

- 5. Insufficiently efficient work of Kazakhstan's state structures in cooperation with SCO.** When evaluating the level of Kazakhstan's participation in the SCO, attention is drawn to the insufficiently efficient work of the country's state structures and their poorly organized activity with respect to implementing the adopted decisions and carrying out planned undertakings. The proposals and recommendations of the Kazakh side are not being clearly formulated in order to be submitted to the SCO Secretariat for further examination.

On the whole, these problems are hindering the development of Kazakhstan's economic activity in the SCO and slowing down diversification and an increase in competitiveness of the national economy. This requires defining the prospective vectors of development and the country's activity within the Organization.

## II. Prospective Development Vectors of Kazakhstan's Foreign Economic Activity within the SCO

- 1. The prospects for Kazakhstan's further cooperation with the SCO** should be examined from the viewpoint of the abovementioned cooperation problems and following strategic tasks:

**1.1. Intensification of regional processes:**

- stepping up regional integration processes as an important factor in undermining the negative manifestations of globalization;
- overcoming economic degradation, resolving social problems, and achieving social stability in the region's countries;
- helping to ensure regional security in Central Asia;
- observing national interests in cooperation with the leading countries in the SCO.

**1.2. Raising Kazakhstan's role and place in regional economic cooperation with the SCO:**

- preserving strategic partners in the SCO;
- raising economic potential and long-term mutually advantageous cooperation with the region's countries;
- carrying out a policy aimed at intensifying regional integration;
- attracting funds from other Organization member states for implementing economic projects in Kazakhstan.

**1.3. Assisting sustainable economic growth and raising economic competitiveness:**

- retaining stability in the region and assisting the politically weak SCO states, including in the economic sphere;
- fuller use of the country's potential by stepping up foreign economic activity;
- expanding Kazakhstan's participation in regional division of labor and cooperation by means of its diversification;

- protecting the SCO countries from the influence of foreign economic crisis phenomena, as well as their consequences;
- further strengthening of Kazakhstan's relations with the SCO countries and expansion of its participation in regional structures.

In August 2008, a summit was held in Dushanbe and in October of the same year a meeting of the SCO Council of Heads of Government in Astana. After these meetings, the most promising vectors in the republic's development listed below were defined.

**1. Stepping up Kazakhstan's interaction in the transportation sphere.** The growing role of the transportation sphere for the SCO is explained by the following factors:

- the activation of foreign relations and strengthening of the SCO states' economic interdependence;
- the increase in the volume of cargo shipments both to the domestic and to the foreign markets;
- the significant increase in the number of passenger transport operations due to the expansion of economic and cultural-humanitarian relations.

In order to further develop the country, it is extremely important to expand its access to the foreign markets, including to the SCO countries. This task can primarily be solved by means of more rational use of the region's transportation and transit potential and by forming a market of transportation services. This requires adopting the following measures.

**1.1. Developing transit and transportation corridors.** The most priority transit directions are the following:

- China-Kazakhstan-Russia-the EU countries;
- China-Kazakhstan-Uzbekistan-Turkmenistan-Iran-Turkey;
- Kazakhstan-Turkmenistan-Iran-Pakistan.

Putting each of these routes into operation will raise the diversification of transit flows and make it possible to increase the volume of freight and passenger movement through the republic, which promises great economic profit.

**1.2. Carrying out a coordinated economic policy in transportation in the SCO region.** In order to accelerate transport operations and lower their net cost, a coordinated policy much be drawn up in this area. This requires solving three important tasks.

- 1.2.1. A coordinated tariff policy in transport operations should be carried, that is, tariff rates must be lowered. It would be expedient to unify them and apply them throughout the entire transportation expanse of the SCO.
- 1.2.2. With respect to customs relations, the procedure for crossing the internal borders of the SCO and registering documents for all types of transportation means should be made as simple as possible.
- 1.2.3. A unified taxation system for transportation means and services should be developed for increasing the efficiency of cargo and passenger transport operations.

**1.3. Drawing up a SCO cooperation program in transportation.** In order to form a unified market of transportation services in the SCO region an interstate cooperation program should be drawn up containing a set of different projects. This document should envisage:

- creating joint ventures for carrying out high-quality cargo and passenger transport operations;

- raising the level of vehicle service, primarily overland;
- introducing scientific-technical cooperation projects aimed at creating satellite and computer movement control systems and ensuring its security;
- organizing joint production of different transport means, as well as the spare parts for them on the basis of production cooperation;
- expanding transport cooperation on the basis of the latest scientific achievements.

This program should also envisage improving national legislation regarding transportation, as well as participation in it not only of the SCO countries, but also of other states.

2. **Carrying out joint activity to protect the economy of the SCO countries from the influence of foreign economic threats and overcoming their consequences.** The crisis processes occurring in the European and American financial markets are dictating the need for adopting measures to combat them not only at the national but also at the supranational level. In this respect, the economic protection of the SCO countries must be ensured.

In order to accomplish this, the Kazakh side proposes creating a **Regional SCO Center for Monitoring the World Financial Markets and Macroeconomic Processes**. An important place in the activity of this center should be occupied by the development of financial assessment methods. Constant monitoring is required of the dynamics of change in the indices of economic cooperation and the state of financial indices in the stock markets.

This Center should draw up development forecasts both for individual markets and for the world economy. When an unfavorable forecast is obtained, the Center could make corresponding proposals and recommendations and compile joint action plans for protecting the economy of the Organization's countries from negative foreign influence and for overcoming the possible consequences. Moreover, it would be expedient to involve the analytical structures of other countries in this process.

3. **Kazakhstan's participation in innovative and technological development projects.** Keeping in mind the leading role of innovative and technological development during diversification of the economy and an increase in its competitiveness, the country's foreign economic activity in scientific research must be stepped up.

In this respect, Kazakhstan is interested in carrying out joint Research and Development (R&D) with the participation of Russia and China, as well as in cooperating with them in the space research sphere.

- 3.1. **Carrying out R&D.** Realization of this vector should begin with talks among the leaders responsible for scientific and innovative activity. A SCO Council for Scientific Research Cooperation should be created that will coordinate the efforts to create new scientific development and innovative technology to manufacture high-quality technical products.

These developments should promote not only an increase in the economy's competitiveness, but also the solution of many tasks in foodstuffs, energy, the environment, and so on.

- 3.2. **Manufacturing high-tech products.** The manufacture of high-quality products must be streamlined by means of joint developments and technologies. For example, a joint Kazakh-Chinese-Russian venture for manufacturing sets of parts for microprocessor technology and complex electronics, including household appliances, could be opened on the basis of the existing Alatau information technology (near Almaty). This would provide the opportunity for creating new brands.

The volume and quality of the products manufactured should meet not only domestic demand, but also ensure the export of goods to Russian regions and Central Asian republics bordering on Kazakhstan.



**3.3. Cooperation in space research.** A qualitatively new and promising vector of Kazakhstan's activity in the SCO could be space research. In this case, not only traditional cooperation is important with Russia, but also with China—a space power with high potential.

Kazakhstan must also step up development of a **Program of SCO Cooperation in Space Research and Space Use**. Kazakhstan could already participate in such a program using the available potential in this sphere. In the future, it would be expedient for the Kazakh side to include the following tasks in the joint program.

1. Implementing a plan for creating a Kazakh satellite and carrying out a wide range of work in geophysical probing of the land surface of the SCO region.
2. Jointly creating contemporary communication and wide-range telecommunication satellites.
3. Participating in the commercial servicing of international satellite systems, including INMARSAT, NORD, and NAVSTAR.
4. Studying and using progressive world space monitoring technology for the region's natural and territorial complex.

**4. Optimizing the functioning of the SCO.** Intensifying cooperation in order to strengthen the SCO can be carried out in the following vectors.

**4.1. Reducing contradictions and obstacles.** Within the framework of this vector, the following questions must be resolved:

- carrying out monitoring in the development of economic relations (customs, business dynamics, coordination of standards, and so on);
- improving the mechanism of economic relations of the region's countries by precise state regulation of foreign economic activity;
- coordinating economic cooperation issues in close cooperation with other cooperation vectors;
- drawing up rules and provisions ensuring the adopting of decisions on the basis of the principle of consensus.

Due to the negative influence of the various contradictions and obstacles, optimization of the procedures and mechanisms of the SCO's activity deserves special attention.

**4.2. Improving the control mechanism over the Organization's functioning.** This process should be aimed at strengthening the planning, coordinating, and monitoring functions of the control mechanism.

- A) The plans for various undertakings must be approved as a mandatory procedure by competent structures of the member states, including by a joint group of experts of the SCO Secretariat.
- B) In order to strengthen the planning function of the control mechanism, the corresponding bodies and structures of the countries must be authorized to take control over determining the time limits for carrying out the undertakings, as well as allot the necessary funds for this.
- C) The Secretariat and other SCO bodies must be made responsible for coordinating the carrying out of undertakings and their results.
- D) The monitoring function of the Organization's control mechanism shall consist of monitoring during the carrying out of planned undertakings, analyzing possible mistakes,

and identifying their reasons. Expert groups, in turn, shall draw up efficient proposals for eliminating problem situations.

**4.3. Expanding cooperation with international and regional organizations.** Expanding and intensifying comprehensive relations with large international economic and financial organizations, as well as integration associations, such as the UN and its structures, the Islamic Development Bank, the Economic Cooperation Organization, the EurAsEC, and APEC, should play an important role in raising the efficiency of the SCO's activity. This was envisaged in Item 8 of the declaration of the heads of the SCO member states adopted in 2008 in Dushanbe.

In so doing, the SCO's cooperation with the indicated structures should be oriented toward their rendering financial assistance to the Organization's highest priority projects in different spheres. Efforts should also be joined to step up joint action to resolve social stability and economic development issues in the region.

**5. Improving the activity of Kazakhstan's state structures participating in implementing cooperation with the SCO.** The need for improving Kazakhstan's foreign economic activity requires that the country's ministries and other state structures raise the efficiency and coordination of their activity.

For this purpose, there are plans to create a special **Council for Developing Foreign Economic Activity** under the republic's government responsible for coordinating the activity of state structures and various interdepartmental commissions for commercial and economic cooperation with foreign countries and international organizations, including the SCO.

This Council should consist of the deputy heads of departments responsible for cooperation with the SCO or the heads of their departments, as well as experts, researchers, and specialists from other spheres. The Council should examine the entire set of issues: developing proposals and plans, carrying out undertakings, and control over their performance.

On the whole, the Council should ensure efficient and qualified development of this set of issues of Kazakhstan's foreign economic activity in the SCO.

In conclusion it should be noted that the development of the prospective vectors of Kazakhstan's interaction within the SCO examined in this article will make it possible to raise the efficiency and productivity of the country's foreign economic activity. This will promote the resolution of such important issues as making more efficient use of the region's transportation and transit potential, increasing stability in the economy in the conditions of the world economic crisis, developing pertinent vectors of scientific research, assisting innovative and technological development, accelerating diversification, and raising the international competitiveness of the country's economy.