SCO'S IMPACT ON ECONOMIC RELATIONS AMIDST SANCTIONS, WITH EMPHASIS ON RUSSIA AND IRAN

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Abstract

This article critically examines the economic efficiency of the Shanghai Cooperation Organization (SCO), with a focus on member countries such as Russia and Iran, which face geopolitical challenges from American and European influences. Contrary to prevailing views that either exaggerate or dismiss the economic benefits of the SCO, this study sheds light on the organization's true economic potential. By addressing the impact of American and European sanctions on member countries, particularly Russia and Iran, the article underscores the significance of long-term economic gains achievable through the collaboration within the SCO. It explores the initiatives and shared goals among member nations, especially those led by China and Russia, as drivers for economic benefits. Additionally, the article emphasizes the potential for resolving challenges related to sanctions, such as facilitating smoother bank transfers, to expedite economic gains for member states.

Keywords

SCO, sanctions, regional integrations, strategic initiatives, energy collaboration, economic resilience, free trade zone, BRI, ASEAN, EAEU.

INTRODUCTION

In the complex design of global connections, the Shanghai Cooperation Organization (SCO) stands as a linchpin, transcending its initial emphasis on security to become a driving force for economic cooperation.

Founded on principles of mutual cooperation outlined in its charter, the SCO has evolved to become a crucial vehicle for fostering economic growth among its member states. The organization's commitment to strengthening mutual trust, friendship, and good neighborliness, as detailed in Article 1 of its charter, lays the foundation for a collaborative economic agenda [1].

In response to global economic challenges, including food and energy shortages and increasing sanctions predominantly led by the United States, member states are strategically steering towards comprehensive economic cooperation, aligning with Article 3 of the charter. Recent economic endeavors within the SCO, as evidenced by the China Development Bank's (CDB) completion of numerous cooperation projects totaling $14.6 billion, reflect the organization's commitment to promoting cooperation in various spheres [2].

The shift towards advanced manufacturing, logistics, healthcare, and technology, as envisioned in the charter, signifies a forward-looking approach to economic development and echoes the principles of equality and mutual interest.

With a combined GDP reaching $25.3 trillion in 2023, accounting for nearly a quarter of the global GDP, SCO member states, play a significant role in maintaining regional stability and enhancing confidence in the region. Growing trade figures, such as China's $343.1 billion trade with other SCO members in 2021, illustrate the organization's potential to drive economic prosperity in line with the charter's goals [3].

For nations navigating the complex terrain of sanctions, particularly Iran and Russia, the SCO emerges as a haven of economic cooperation. The organization's commitment to economic security, counteraction to threats, and the promotion of human rights, as stipulated in Articles 1 and 2, provide a framework for overcoming difficulties posed by external pressures.

As we explore the economic landscape within the SCO, we aim to uncover the possible advantages for sanctioned nations, examining the principles articulated in the charter. The willingness of key member states, especially China and India, to engage in economic partnerships aligns with the charter's spirit of mutual benefit, gradual implementation of joint activities, and peaceful dispute resolution.

This article seeks to explore the economic mechanisms within the SCO, taking into account the institutionalization efforts and the evolving governance model, as outlined in Articles 4 and 15. By scrutinizing the transformative impact of the SCO on the economic destinies of its member states, especially those grappling with sanctions, we hope to illuminate the organization's role in fostering economic cooperation and mitigating the challenges posed by external pressures.

SANCTIONS AND REGIONAL INTEGRATIONS

In the realm of international relations, sanctions have emerged as a potent geopolitical tool, shaping the dynamics of trade and cooperation among nations. This part investigate the varied impact of sanctions within regional organizations, with a particular focus on the presence of Russia in Eurasian Economic Union (EAEU) and Iran in Shanghai Cooperation Organization (SCO). Additionally, it explores Kazakhstan's nuanced stance amidst geopolitical tensions, providing a unique perspective on the challenges and opportunities presented by sanctions.

Primarily concerning the EAEU, comprising nations seeking economic integration, faces a dilemma concerning the adoption of a common currency and the challenges associated with currency pegging. The economic transformation triggered by sanctions, coupled with increased government dependency and civil society empowerment, underscores the complexities member states grapple with in their pursuit of optimal interaction models.

Despite challenges, EAEU membership acts as a mitigating factor against external pressures. Regional integration serves as a buffer, preventing isolation during times of sanctions. However, issues such as complications in goods movement and disruptions at border controls pose challenges to the core idea of a single customs territory within the union [4].

As a key player in Eurasian integration, Kazakhstan faces the delicate task of balancing its commitment to integration with the preservation of national sovereignty. President Kassym Jomart Tokayev's pragmatic approach surprises many, as he declares Kazakhstan's adherence to the sanctions regime while maintaining ties with Russia, Its main trading partner. Kazakhstan positions itself as a unifying mediator between the East and West, showcasing post-Soviet realism in its foreign affairs. Despite sharing extensive borders with Russia and being a member of the Eurasian Customs Union, It emphasizes that it will not allow its territory to be used to circumvent sanctions, highlighting a commitment to international norms [5].

Sanctions also influence the political context within the EAEU, exposing competition among member states. Belarus and Kazakhstan, as driving forces, emphasize economic integration while cautiously navigating Russian influence. Armenia and Kyrgyzstan prioritize national security, potentially leading to continued emphasis on national sovereignty [6].

To further clarify, we should refer to the SCO and its own set of challenges, particularly for Iran. Banking sanctions and restrictions hinder Iran's full participation; notwithstanding it's status as a full official member. Issues related to the SCO Interbank Consortium and restrictions on trade further complicate Iran's position. The exclusion from the World Trade Organization add another layer of complexity to Iran's ability to leverage SCO membership fully [7].

SCO'S STRATEGIC INITIATIVES IN A SHIFTING GLOBAL LANDSCAPE

The Shanghai Cooperation Organization (SCO) demonstrate the significance of innovation within these entities. Initiatives like the Energy Club, Interbank Consortium, and the proposed free trade zone highlight the SCO's commitment to enhancing economic efficiency. By embracing these innovative measures, the SCO not only strengthens its internal cohesion but also charts a course towards greater self-sufficiency, positioning itself as an impressive player in the global arena. In the following, we will explain these innovations and the role of each one in helping to develop trade relations of the member countries in the Shanghai Cooperation Organization.

SCO ENERGY CLUB: CATALYST FOR ENERGY COLLABORATION AND ECONOMIC RESILIENCE

The Shanghai Cooperation Organization (SCO) Energy Club, established in 2013, has evolved into a pivotal platform for fostering collaboration among member states in the realm of energy development and security.

The SCO Energy Club traces its origins back to 2006 when Russia proposed the creation of an internal cooperative energy body within the SCO.

However, it was not until 2013 that the club commenced its operations, gaining support from all eight-member states. The primary goal of the Energy Club is to serve as a consultative mechanism for discussing energy cooperation, proposing new projects, and resolving challenges related to energy transport, production, and consumption. Despite its nonbinding nature and relative youth, the Energy Club has emerged as a valuable framework for robust energy cooperation among member states [8].

One of the key economic benefits of the SCO Energy Club lies in its ability to facilitate collaborative nuclear energy development, and stabilize the energy landscape in Central Asia. Member states, including China, Russia, Kazakhstan, and others, have made significant progress in promoting nuclear energy cooperation. Deals and exports of reactors, particularly by China and Russia, have contributed to the development of domestic nuclear programs in various member countries. Additionally, states like Kazakhstan and Uzbekistan play vital roles by supplying uranium, fostering a mutually beneficial nuclear trade network.

For Iran and Russia, both under U.S. and European sanctions, the SCO Energy Club has offered a lifeline for economic resilience and energy security. Iran, with its controversial nuclear program, has found a diplomatic avenue within the Energy Club to address concerns. The import-enrich-export relationship facilitated by the club, as seen in the Iranian nuclear question, provides economic incentives for compliance, offering Iran substantial economic gains over diplomatic isolation.

Russia, on the other hand, has been a driving force within the Energy Club, leveraging its expertise in nuclear energy. Despite facing sanctions, Russia has continued to export reactors and play a crucial role in establishing the SCO as a formidable energy player in the region [9].

ASSESSING THE ROLE AND CHALLENGES OF THE SCO INTERBANK CONSORTIUM

The Shanghai Cooperation Organization (SCO), a pivotal player in regional security, has increasingly turned its attention to economic cooperation among member states. One significant aspect of this economic collaboration is the SCO Interbank Consortium. Established as a nominal union of leading banks in SCO countries, its primary objective is to stimulate financial activity and encourage investment for economic development.

The Interbank Consortium's history dates back to its inception, functioning as a basis for cooperation among the region's leading commercial banks. Despite initial nominal significance, it has evolved to become a critical element in the SCO's economic landscape. By 2017, the Consortium reported an impressive allocation of $98 billion in financial resources across SCO countries, reflecting its potential impact on economic development.

However, while the Interbank Consortium has shown promise, certain disadvantages and challenges have been identified. One critical limitation stems from the lack of clear regulations governing financial activities within the SCO. Despite the substantial reported allocations, the majority of these resources originate from the China Development Bank, highlighting a potential imbalance in contributions. Moreover, the Interbank Consortium's impact on the economic development of the region has been considered limited, with analysts pointing out that it functions nominally and does not significantly contribute to the promotion of trade and economic cooperation within the SCO framework. Critics argue that without addressing these challenges, the Consortium's full potential may remain untapped [10].

In light of the economic challenges faced by SCO member states, the

Interbank Consortium becomes particularly relevant. The region, comprising landlocked countries with a shared border, engages in what is termed a 'closed-loop trade.' This unique characteristic allows member states to avoid the transportation and settlement mechanisms of the United States and the European Union, enhancing economic autonomy [11].

However, the effectiveness of the Interbank Consortium in mitigating the impact of American and European sanctions against SCO member states, especially Iran and Russia, is a matter of debate. The ongoing banking sanctions and non-ratification of the Financial Action Task Force (FATF) by Iran pose significant hurdles to the Consortium's potential gains. Experts argue that these factors may limit Iran's ability to return to normal conditions in international trade, even with SCO membership [12].

While the Consortium offers advantages, such as building strong ties between leading commercial banks and facilitating access to financial resources, the disadvantages, including limited impact on economic development and challenges posed by existing sanctions, raise questions about its efficacy. The SCO Interbank Consortium could potentially play a role in regional economic resilience against external sanctions. However, its success depends on addressing internal challenges and fostering a more balanced and transparent financial cooperation framework within the SCO.

SCO FREE TRADE ZONE: A PROPOSAL FOR ECONOMIC GROWTH

The Shanghai Cooperation Organization (SCO) Free Trade Zone has evolved as a distinctive economic initiative within an organization primarily dedicated to political and security matters. This endeavor traces its roots back to 2003 when Chinese Prime Minister Wen Jiabao proposed the idea, envisioning a platform for enhanced economic collaboration among SCO member states.

However, the path to establishing the SCO Free Trade Zone faced initial reluctance from member states, driven by concerns about China's potential economic dominance but Bilateral negotiations led to the creation of small free trade zones [13].

In 2004, China took a significant step by offering $900 million in preferential buyer's credit loans and inaugurating the SCO Development Fund. This financial support aimed to mitigate the impacts of financial crises and set the stage for the envisioned SCO Bank, underlining China's commitment to the region's economic stability.

The subsequent years witnessed the establishment of the SCO Business Council and the promotion of inter-bank cooperation in 2005-2006. These initiatives reinforced the organization's commitment to regional economic integration, signaling its evolution into a significant global economic player.

China, having joined the World Trade Organization (WTO), actively engaged in regional economic integration, viewing free trade areas as a strategic means to open up to the world and expedite domestic reforms. The nation successfully concluded free trade deals with several countries, including Switzerland, Costa Rica, Peru, Singapore, Chile, Pakistan, Georgia, Australia, Korea, Iceland, New Zealand, and ASEAN. Despite these positive strides, persistent obstacles, particularly high customs tariffs, impede economic cooperation within the SCO. To overcome these challenges, the creation of a Free Trade Area within the SCO has been proposed, aiming to stimulate economic development and foster closer ties among member states [14].

The Shanghai Cooperation Organization (SCO) Free Trade Zone presents a unique opportunity for Iran and Russia to bolster their economic prospects. In the face of existing challenges, such as sanctions, Iran stands to benefit from diversifying its economic ties within the SCO, gaining access to a larger consumer market and mitigating the impact of sanctions. For Russia, a key player in the SCO, the Free Trade Zone offers avenues for expanded trade, investment, and participation in infrastructure projects, contributing to economic resilience and growth. The SCO initiative provides both countries with a strategic platform to economic complexities, fostering collaboration and unlocking new prospects for development.

STRATEGIC CONVERGENCE: BRI AND GREATER EURASIA UNITE FOR SCO PROSPERITY

China's Belt and Road Initiative (BRI) and Russia's Greater Eurasia join forces within the Shanghai Cooperation Organization (SCO), fostering economic progress and collaboration. The BRI aligns with the SCO's principles, enlarging its role in stability and integration. Challenges arise from Western sanctions, impacting Iran and Russia and the cautious embrace of the BRI and the Greater Eurasian Partnership reshapes the geopolitical landscape. Iran, strategically positioned, aims to overcome isolation through projects like the International North–South Transport Corridor. Together, these initiatives offer economic opportunities for member countries. Now, we should assess their performance and cooperation with the Shanghai Cooperation Organization.

BELT AND ROAD INITIATIVE (BRI)

The Belt and Road Initiative (BRI), proposed by President Xi Jinping in 2013, is a monumental economic megaproject that encompasses the Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Road. This initiative aims to connect Asia, Europe, and Africa through extensive infrastructural development and economic cooperation. With an estimated project volume of 4 to 8 trillion USD, the BRI relies on financial integration involving funds, banks, and institutions, utilizing channels such as BRI bonds, private capital investment, and Public-Private Partnerships (PPPs).

The BRI finds its historical and ideological counterpart in the Shanghai Cooperation Organization (SCO). Both initiatives share common features, principles, and goals, emphasizing equality, solidarity, mutual trust, and cooperation. The «Shanghai Spirit» of the SCO, focusing on equality, consultation, common development, mutual benefit, trust, and respect for diverse cultures, aligns seamlessly with the spirit of the BRI. The SCO serves as a crucial platform for China to effectively advance BRI goals. Moreover, it plays a pivotal role in advancing business cooperation and stimulating economic integration within the BRI framework.

There is a recognized need to enhance the economic functions of the SCO, transforming it to respond to global economic integration trends. As a platform for collaboration on security and development issues, the SCO's enlargement, including countries like India and Pakistan, aligns with collective initiatives like the «Greater Eurasian Partnership» and the BRI.

Economic interests, energy security, and stability in the Xinjiang Uygur Autonomous Region drive China's engagement in Central Asia through the SCO. The geographical significance of Central Asia, home to most founding members of the SCO, aligns with China's focus on this key region for the BRI. The complementary projects under BRI and existing economic cooperation structures of the SCO foster multilateralism, adherence to international laws, and ensure comprehensive, reliable security and sustainable economic development [15].

The United States and Europe's imposition of sanctions on Russia and Iran poses significant challenges to their participation in the BRI. In the face of U.S. sanctions impeding Sino-Iranian trade and constraining Chinese investments in Iranian infrastructure projects, Iran is exploring innovative avenues such as the utilization of digital currencies to navigate these limitations while also seeking opportunities within the SCO Interbank Consortium [16].

Similarly, Russia, likely to solidify its geo-economics initiative, the Eurasian Economic Union (EAEU), to strengthen influence, may face hurdles due to Western sanctions. Despite the initial impact of sanctions, Russia has potential strategies to neutralize their effects. In the short term, Russia is turning to China for economic support. Meanwhile, an Iran eager for connectivity, and an India eager for land connectivity to Eurasia through Iran's Chabahar Port are motivated to fast-track the development of the International North-South Transport Corridor (INSTC). This initiative, involving Central Asian countries, aims to reach international waters via the Iranian landmass. In the long term, Russia also aims to fortify the Eurasian Economic Union (EAEU) and expand trade relations with nations like Iran and India. By embracing regional partnerships and seeking support from China, Russia is strategically positioning itself to overcome the challenges posed by the sanctions [17].

GREATER EURASIA: A NEW GEOPOLITICAL LANDSCAPE

Amid the changing landscape of geopolitics, a significant concept, "Greater Eurasia", has gained prominence, marking a paradigm shift initiated by Russian President Vladimir Putin. This expansive initiative, conceived in 2015, endeavors to weave a macro-regional integration fabric that encompasses political, security, and economic dimensions. Stretching across the Eurasian Economic Union (EEU), the Commonwealth of Independent States (CIS), and influential Asian nations such as China, India, Pakistan, and Iran, 'Greater Eurasia' challenges the established order, posing an alternative to the U.S.-led liberal international order.

At its heart lies the dynamic alignment between Russia and China, planning for a broad political and economic scope that extends from Murmansk in the north to Shanghai in the east. This alignment wasn't always straightforward; Russia initially approached China's Belt and Road Initiative (BRI) with caution but eventually embraced it, converging it with the Silk Road Economic Belt (SREB) in 2015. This strategic realignment was catalyzed by the growing influence of China in Central Asia, prompting Russia to forge a closer partnership with Beijing.

The conceptualization of 'Greater Eurasia' began in 2015 when a group of experts emphasized the economic compatibility between China's SREB and the EEU. Over time, this idea evolved into a spatial project, finding institutional roots in the Shanghai Cooperation Organization (SCO), which became a key base for the 'Greater Eurasia' concept [18].

A pivotal figure in this geopolitical narrative is Sergei Karaganov, who outlined four main aspects of 'Greater Eurasia': a conceptual frame for interaction, an emerging geo-economics entity, the recreation of a space of civilizational cooperation, and a movement towards a new geo-strategic commonality. While this vision primarily centers around Russia and China, its geographic scope extends to Central Asia, albeit with limited interest in local perspectives [19].

Strategically positioned at the core of this grand vision is Iran, viewed by Russia as a crucial partner in countering Western influence and securing the region. Iran's envisioned role encompasses connecting Eurasia to the Middle East and South Asia, serving as a linchpin in the GEP Initiatives like the International North–South Transport Corridor (NSTC) and the Caspian Development Strategy are conceived to enhance connectivity, promising a bridge between regions. However, the progress of these initiatives is hampered by financial challenges and international sanctions, creating hurdles in the realization of the broader GEP [20].

Despite concerns about the economic viability of certain projects, the ‘Greater Eurasia’ concept, characterized by its emphasis on state sovereignty and non-interference, provides Iran with an avenue to overcome international isolation. Through engagement with Moscow on economic and security issues, Iran seeks to legitimize its role and contribute meaningfully to the evolving geopolitical landscape. As this narrative continues to evolve, the question remains: can ‘Greater Eurasia’ emerge as a cooperative example, or can the challenges in its large and varied terrain be overcome? Only time will tell.

EURASIAN ECONOMIC INTEGRATION: SCO, ASEAN, AND EAEU COLLABORATION

In the evolving landscape of international relations is witnessing a notable paradigm shift, with emphasis placed on the creation of alternative economic partnership systems. In this context, Russian President Vladimir Putin has set a significant goal of fostering an economic partnership system among the Eurasian Economic Union (EAEU), Shanghai Cooperation Organization (SCO), and Association of Southeast Asian Nations (ASEAN). This initiative holds great promise for enhancing regional economic integration and addressing the challenges posed by global economic uncertainties.

SCO-ASEAN COOPERATION

SCO and ASEAN, identified as significant and growing markets with expanding middle classes, offer substantial opportunities for deepening economic cooperation [21]. Both organizations, as independent international entities, are emerging as alternatives to traditional Western-dominated institutions. This trend contributes to the establishment of a more balanced global power structure.

The cooperation between the SCO and ASEAN goes beyond mere geographical proximity. With ASEAN covering the southern part and SCO covering the northern and eastern parts of the vast Euro-Asian terrain, these organizations recognize the need for effective collaboration in the face of challenges posed by financial and economic globalization, international terrorism, organized crime, and illegal migration [22].

EAEU-SCO

The collaboration between EAEU and SCO, marked by a memorandum of understanding, encompasses a range of areas such as economic policy, trade, investment, energy, and transport. The economic integration efforts are further bolstered by shared identity based on language, culture, history, and a common victory in World War II. One of the critical areas of synergy between EAEU and SCO is the development of infrastructure. Coordinated efforts are underway to rehabilitate and connect road transport infrastructure in post-Soviet Central Asia. Additionally, priorities are set on optical cable connections and the creation of a common digital space, signaling a commitment to leveraging technology for mutual benefit [23].

The economic strand of interregional relations between these organizations focuses on trade, investment, and core-periphery dynamics. Challenges, such as significant trade imbalances between China and EAEU states, highlight the need for deeper integration within EAEU. This deeper integration could serve as a collective entity for negotiations with China and act as a safeguard against trade imbalances.

Moreover, the prospect of a common currency within EAEU offers the potential to ease trade relations and challenge the dominance of the US dollar in global trade. The SCO's unique position to challenge the petro-dollar system aligns with broader efforts by Russia and China to de-dollarize international trade [24].

The collaboration between these regional entities not only holds economic promise but also presents an opportunity to reduce the impact of American and European sanctions on member countries. By promoting trade in domestic currencies, developing alternative payment systems, and challenging existing international standards, these organizations aim to create a more resilient economic environment.

The collaboration between SCO, ASEAN, and EAEU signifies a new dawn for Eurasian economic cooperation. By addressing economic asymmetries, leveraging technology, and promoting trade in domestic currencies, these organizations can unlock substantial economic potential. Additionally, their collective efforts may serve as a resilient response to global challenges and contribute to reducing the impact of external sanctions on member countries. As these regional initiatives unfold, they reinforce the emergence of alternative economic partnership systems, offering a pathway to a more balanced and inclusive global economic order.

CONCLUSION

In this comprehensive exploration of the Shanghai Cooperation Organization (SCO), Belt and Road Initiative (BRI), and their interactions with regional entities like ASEAN and EAEU, an understanding of the evolving landscape of Eurasian economic cooperation emerges. The SCO, originally rooted in security concerns, has transformed into a linchpin for economic collaboration, addressing challenges faced by member states, particularly those under external sanctions.

The Belt and Road Initiative, a monumental economic megaproject, finds historical and ideological links with the SCO, reflecting a shared commitment to equality, solidarity, and mutual trust. Initiatives like the Energy Club, Interbank Consortium, and Free Trade Zone showcase the SCO's strategic measures in fostering economic resilience and growth, especially for nations navigating the complexities of sanctions.

The impact of sanctions on nations like Iran and Russia is meticulously examined, shedding light on the SCO's role as a haven for economic cooperation in the face of external pressures.

Simultaneously, the exploration of 'Greater Eurasia' and the collaborative efforts of SCO, ASEAN, and EAEU highlight a paradigm shift toward alternative economic partnership systems, contributing to a more balanced and inclusive global economic order.

The collaborative endeavors between EAEU and SCO, particularly in infrastructure development, reflect a commitment to mutual benefit and shared identity. The economic dimensions of interregional relations emphasize the need for deeper integration to address trade imbalances and challenge the dominance of the US dollar in global trade.

Crucially, these collaborative regional initiatives not only hold economic promise but also offer a resilient response to global challenges, notably the impact of external sanctions. By promoting trade in domestic currencies, developing alternative payment systems, and challenging existing international standards, these organizations strive to create a more resilient economic environment.

As these regional narratives unfold, they collectively underscore the emergence of alternative economic partnership systems, offering a pathway to a more balanced and inclusive global economic order. The cooperative spirit among these organizations, exemplified through their strategic initiatives and collaborations, paints a promising picture for the future of Eurasian economic cooperation, transcending geopolitical complexities and fostering a shared vision of economic resilience and growth.

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