

TAJIKISTAN'S ECONOMIC COOPERATION PROSPECTS WITH THE SCO COUNTRIES

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Introduction

The Shanghai Cooperation Organization (SCO) was established on 15 June, 2001 in Shanghai (PRC) by the Republic of Kazakhstan (RK), the PRC, the Kyrgyz Republic (KR), the Russian Federation (RF), the Republic of Tajikistan (RT), and the Republic of Uzbekistan (RU).

The SCO's prototype was the Shanghai Five, the members of which were all of the aforementioned countries apart from Uzbekistan. This political association was established when Kazakhstan, Kyrgyzstan, China, Russia, and Tajikistan signed agreements on confidence-building in the military sphere (Shanghai, 1996) and on mutual reduction of armed forces in the border zone (Mos-

cow, 1997). Thus a mutual confidence-building facility was launched in the military sphere in the border regions and conditions created for establishing truly partnership relations among the countries.

After Uzbekistan joined the organization in 2001, the Five became Six and the structure was renamed the SCO. Moreover, at present four countries (India, Iran, Mongolia, and Pakistan) have observer status in the organization, while another two (Belarus and Sri Lanka) are dialog partners.

The SCO has two permanent members of the U.N. Security Council—China and Russia, which are nuclear-weapon states under the Non-Proliferation Treaty (NPT). Another two non-NPT nuclear

powers—India and Pakistan—have observer country status. India and China are also among the most rapidly developing economies of the world and are the most highly populated countries on the planet.¹

¹ [<http://www.sectsc.org/RU/brief.asp>].

The economy is one of the key spheres in cooperation among the SCO states and particular attention is focused on the development of economic relations. The objective of this article is to assess the state and prospects for Tajikistan's economic cooperation within the framework of this organization.

The SCO in the Framework of Regional and Global Politics

Although the SCO's initial tasks were associated with taking joint interregional steps to intercept terrorist acts, separatism, and extremism in Central Asia (CA), the organization's activity quickly acquired a comprehensive economic orientation. In September 2003, the heads of the SCO member states signed a Multilateral Economic Trade Cooperation Program targeted for 20 years.² One of the long-term objectives was to establish a free trade area in the SCO expanse, while in the short term, active efforts were aimed at creating favorable conditions for reciprocal trade and investment.

Cooperation within the SCO encompasses such spheres as power engineering, transport, agriculture, telecommunications, and many other branches of the economy; the organization's member states are cooperating extensively in the scientific-technical, cultural, education, tourist, and humanitarian spheres.

Today, the SCO is one of the core elements of regional and global politics, and the interests of all the participating states realistically concur in its practical work. It goes without saying that, spurred by the advance of many new and innovated ideas and conceptions, the creation, development, and strengthening of the SCO have enriched the theory and practice of international relations.

The member states have similar customs, which is largely related to the Great Silk Road that has been an integral part of their territory for millennia; moreover, they are united by the common desire to establish multilateral contacts, intensify cooperation among governments and NGOs, and develop economic trade and humanitarian cooperation.

The 11th session of the Council of SCO Heads of State was held on 14-15 June, 2011. The summit concluded with the adoption of the Astana Declaration on the Tenth Anniversary of the SCO, which assessed the organization's achievements over the past decade and set forth the plans the member states have for enhancing practical cooperation and engaging in joint efforts in the future.

The SCO states have extremely rich reserves of raw mineral and hydropower resources. They account for at least 25% of the world oil resources, 30% of the world gas reserves, and 50% of the proven uranium reserves.³ All of this requires intensifying integration cooperation in the real sector of the economy. Furthermore, the CA states have enormous transit potential, and its efficient use is becoming an important factor in forming the region's global communication infrastructure. The Central Asian countries have all the prerequisites for sustainable development, raising the competitiveness of their national economies, forming a common market of goods and services in the future, and becoming successfully integrated into the world community. These capabilities can be brought to fruition by intensifying integration cooperation among the CA states, conducting a coordinated economic policy, and enhancing cooperation in the fight against terrorism, extremism, and the drug business.

The Joint Declaration on the Establishment of the SCO signed in June 2001 pinpointed the landmarks of economic cooperation. One of the main objectives was to augment trade and economic and

² [http://www.mintrans.ru/activity/detail.php?FOLDER_ID=1046].

³ [http://www.sco-ec.gov.cn/crweb/scor/info/jmxs.jsp?col_no=344&siteid=scor].

investment cooperation.⁴ Developing transport infrastructure, the energy industry, environmental protection, and, in particular, resolving water resource problems are priorities of the SCO's economic trade cooperation.

Furthermore, a Multilateral Economic Trade Cooperation Program was drawn up for the SCO member states for the period up to 2020. The end goal of the program is to create conditions for the free movement of goods, services, capital, and manpower.

There are several obstacles to rapprochement of the SCO countries. They include the differences in depth and scope of the economic reforms; the different levels of economic development; the significant discrepancies in national legislation; the impossibility of ensuring free and reciprocal convertibility of national currencies; the absence of interregional confidence-building measures in military, border, and transborder issues; the absence of a free trade regime; and problems associated with the use of common natural resources.

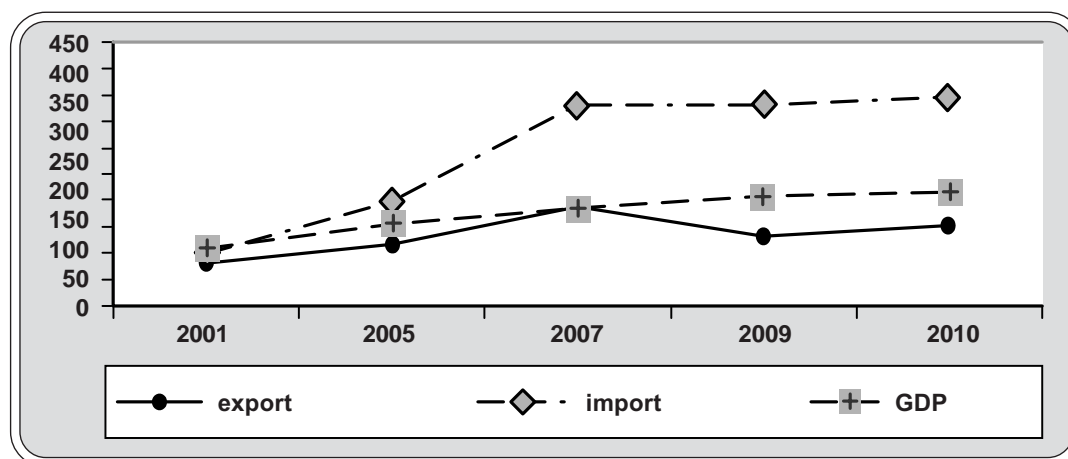
Tajikistan's Foreign Economic Activity Needs Modernizing

High-quality modernization of the national economy is needed to ensure normal and sustainable economic growth in Tajikistan. Today the Tajik economy is non-competitive, and the population's purchasing power is growing primarily by means of work migrants' remittances. This has recently been leading to an increase in imports from the countries of both the Near and Far Abroad.

Cooperation with the SCO countries is one of Tajikistan's most important objectives, however the starting conditions of its integration into the world economy objectively differ from those that existed in other member states of the Organization. The country began to abruptly raise its economy without a well-considered strategy of integration into the world markets. The state's hurried departure from the foreign economic spheres in which it used to be a direct and monopoly participant also caused a

Figure 1

Dynamics of Tajikistan's GDP, Export, and Import Growth Rates (2003 = 100%)



⁴ [<http://www.sectSCO.org/RU/2001.asp>].

number of acute problems. Liberalization was accompanied by a deterioration in the foreign trade structure and aggravation of the external debt problem.

Greater dependence on external factors during integration into the world economy is an absolutely legitimate trend for any country. In Tajikistan's case, the hypertrophic nature of this dependence was caused primarily by the crisis state of the economy and the breakdown in its conventional controls.

In light of the cutback in production and consumption of domestic products, the export sphere became the largest sector of the economy, with the help of which other branches kept afloat. For example, more than a quarter of Tajikistan's GDP is realized by means of export.

After foreign trade was liberalized, consumer goods constituted the main import commodities (largely food, raw materials for its production, and household appliances), as well as means of communication and computer technology. In the 1990s, saturation of the consumer market with imported goods was warranted: the import of communication means and computers enhanced the technical base of education and science. But lack of attention to domestic production (including to the production of food and industrial consumer goods) had a serious impact on the country's economy.

Role of the SCO Countries in Tajikistan's Economy

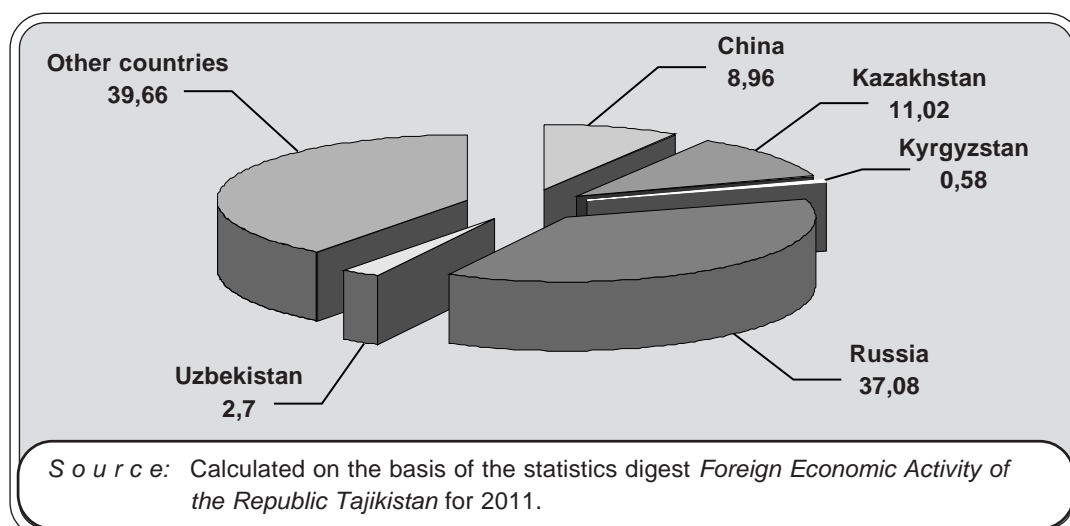
Tajikistan is trading actively with the SCO countries. Several figures show the role and significance of this trade in the development of the Tajik economy. For example, in 2010, the share of the SCO countries in the overall import volume into Tajikistan amounted to 60.34%. Furthermore, the import of products from Russia constitutes 61.45% of the total import volume of the SCO countries into Tajikistan; it is followed by Kazakhstan and then China.

China mainly delivers machinery, equipment, spare parts, base metals and items made from them, as well as products of the chemical industry, to Tajikistan.

Tajikistan mainly receives plant and mineral products from Kazakhstan; foodstuffs and cattle breeding products, textiles and apparel, machinery and equipment, as well as mineral products from

Figure 2

Import Structure of the SCO Countries into Tajikistan (%)



Kyrgyzstan; mainly mineral products, products of the chemical, lumber, and woodworking industries from Russia; and mineral products and means of ground, air, and water transport from Uzbekistan.

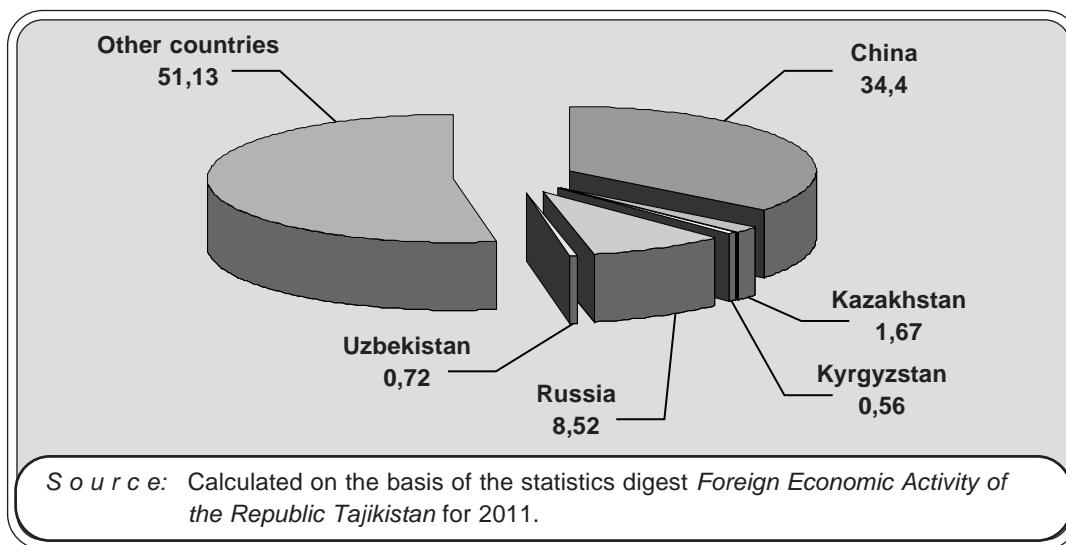
Tajikistan depends entirely on imports from the SCO countries of such products as plants (90.6% of the total imports into the country), mineral products (84.3%), lumber and products made from it (94.6%), items made from stone or similar materials (82.0%), and base metals and items made from them (70.7%).

As for exports from Tajikistan to the SCO countries, in 2010, their share amounted to 48.9%.

Tajikistan exports most of its goods to China. Base metals and items made from them account for 93.16% of the total export volume to China and mineral products for 4.38%. The share of live cattle and animal product exports to the SCO countries amounts to 65.9%, plant products to 83.3%, and prefabricated food products to 79.6%.

Figure 3

Export Structure from Tajikistan to the SCO Countries (%)



China's Role in the Tajikistan Economy

In ten years, more than 70 agreements have been signed with the PRC alone; China is one of Tajikistan's top three trade partners and is a key investor in the country's economy.

Since 2006, economic trade cooperation has been undergoing a boom: China mainly delivers machinery, equipment, spare parts, base metals and items made from them, and products of the chemical industry to Tajikistan.

Several major national projects have been implemented in Tajikistan with the support of the Chinese government, which has become a clear sign of Tajik-Chinese friendship and cooperation. Many Chinese companies have launched long-term activity in Tajikistan.

The opening of highway service in the fall of 2004 between the PRC and Tajikistan through the Kulma Pass, as well as the launching of Beijing's rather extensive loan scheme to the Tajik economy not only led to an abrupt increase in the scope of trade turnover, but essentially gave a boost to China's real economic penetration into Tajikistan. China has begun actively lending to the Tajik economy. Furthermore, the soft loans issued to the republic for particular socially significant projects are usual-

Table 1

Tajikistan's Foreign Trade Cooperation with the PRC

| | Tajikistan's Export Structure to the SCO Countries in Terms of Commodity Groups for 2010 (%) | | Tajikistan's Import Structure from the SCO Countries in Terms of Commodity Groups for 2010 (%) | |
|--|--|--|--|---|
| | Share of Commodity Group in Tajikistan's Export Volume to the SCO Countries | China's Share in the Total Export Volume of Commodity Group to the SCO Countries from Tajikistan | Share of Commodity Group in Tajikistan's Import Volume from the SCO Countries | China's Share in Tajikistan's Total Import Volume of Commodity Group from the SCO Countries |
| Total | 100 | 100 | 100 | 100 |
| Live animal and cattle breeding products | 0.03 | 0.00 | 1.77 | 0.07 |
| Plant products | 4.99 | 0.12 | 8.28 | 1.52 |
| Animal and vegetable oils and fats | 0.00 | 0.00 | 2.74 | 0.00 |
| Prefabricated food products | 0.30 | 0.00 | 5.74 | 0.38 |
| Mineral products | 4.55 | 4.38 | 24.37 | 1.09 |
| Products of the chemical industry | 0.25 | 0.00 | 20.50 | 13.40 |
| Plastics and products made from them | 0.02 | 0.01 | 1.23 | 2.44 |
| Raw hide and leather | 0.26 | 0.29 | 0.03 | 0.14 |
| Lumber and products made from it | 0.07 | 0.01 | 4.59 | 2.52 |
| Paper and cardboard, items made from them | 0.03 | 0.00 | 1.17 | 2.44 |
| Textiles and apparel | 19.52 | 0.50 | 1.21 | 2.56 |
| Footwear and headwear | 0.03 | 0.00 | 0.20 | 0.38 |
| Items made from stone or similar materials | 0.00 | 0.00 | 2.05 | 2.85 |
| Base metals and items made from them | 63.38 | 93.16 | 6.13 | 19.52 |
| Machinery, equipment, and spare parts | 1.07 | 0.38 | 11.01 | 38.00 |

Table 1 (continued)

| | Tajikistan's Export Structure to the SCO Countries in Terms of Commodity Groups for 2010 (%) | | Tajikistan's Import Structure from the SCO Countries in Terms of Commodity Groups for 2010 (%) | |
|--|--|--|--|---|
| | Share of Commodity Group in Tajikistan's Export Volume to the SCO Countries | China's Share in the Total Export Volume of Commodity Group to the SCO Countries from Tajikistan | Share of Commodity Group in Tajikistan's Import Volume from the SCO Countries | China's Share in Tajikistan's Total Import Volume of Commodity Group from the SCO Countries |
| Means of ground, air and water transport | 2.42 | 0.19 | 7.19 | 7.57 |
| Instruments, optical equipment, and watches | 0.14 | 0.08 | 0.76 | 1.90 |
| Miscellaneous industrial goods | 0.04 | 0.00 | 0.70 | 2.49 |
| Works of art | 0.12 | 0.00 | 0.06 | 0.00 |
| Other | 0.01 | 0.00 | 0.26 | 0.72 |

Source: Calculated on the basis of the statistical digest *Foreign Economic Activity of the Republic Tajikistan* for 2011.

ly reclaimed by Chinese companies themselves. So, as of today, the PRC is a major lender to Tajikistan, significantly surpassing the financial structures of other countries.⁵

In light of the scope of the republic's economy, China's economic presence in Tajikistan appears significant and mainly boils down to trade (including shuttle) and rendering financial assistance in the form of soft loans and grants. Most of Chinese finances in the Tajik economy consist of loans (more than \$600 million). China's direct investments into the Tajik economy are insignificant and amount to less than \$50 million.⁶

The electric power industry (building of the Zeravshan Hydroelectric Power Plant and Nura-bad-2 Hydroelectric Power Plant, as well as the high-voltage Lolazor-Khatlon and South-North power transmission lines); transport (reconstruction of the Dushanbe-Khujand-Chanak highway and building of the Shakhristan and Shar-Shar road tunnels); and the mining industry (development of gold deposits in the Penjikent district and building plants for the manufacture of aluminum fluoride and cryolite), as well as projects in the telecommunications sphere are the main branches of the Tajik economy into which China is pumping its financial resources.⁷

⁵ See: V. Paramonov, A. Stokov, O. Stolpovskiy, "Ekonomicheskoe prisutstvie Kitaia v Tadzhi-kistane. Izuchenie obshchestvenno-politicheskikh protsessov na postsovetском prostranstve, Information and Analytical Center," 23 June, 2009, available at [<http://www.ia-centr.ru/expert/5038/>].

⁶ Ibidem.

⁷ Ibidem.

So, as things currently stand, the prospects for developing Tajikistan's economic cooperation with the stronger SCO economy are very ambiguous. On the one hand, Tajikistan is in need of China's finances and goods, while on the other, the dimensions of China's economic penetration into Tajikistan are such that they could lead to Tajikistan's dependence on China.

Conclusion

Tajikistan is placing great significance on cooperation within the framework of the SCO and sees it as one of the most important regional organizations. Much has been accomplished in the SCO with respect to resolving regional issues, organizing economic cooperation, and developing other cooperation vectors, which are gradually encompassing all spheres of interrelations of the Organization's member states.

On 15 June, 2011, when speaking at an extended sitting of the Council of SCO Heads of State in Astana, Tajik President Emomali Rakhmon emphasized the need to harmonize the investment legislation of the Participating states. He noted in particular that it would be expedient to enhance the legislation of all the Organization's members by improving the conditions for distributing and protecting foreign investments, as well as to regulate and strictly monitor a special legal management regime for the free economic areas. He suggested creating a special working group to study this matter. Employing such measures would make it possible to implement large joint projects in special free economic areas in Tajikistan. In particular, the matter concerned new science, production, and business compounds along the lines of the industrial, scientific, and technology parks that are becoming popular today.⁸

Realizing the advantages of Tajikistan's transport and geographical location and the potential of its border territories is another strategically legitimate vector. Creating a wide network of free economic areas and border trade zones in the Gorno-Badakhshan Autonomous Region and the Sogd Region would draw the SCO's copious flows of goods and capital, which are currently going to foreign countries, into Tajikistan.

Keeping in mind the raw material orientation of most of the SCO countries and relying on the primary sector of their economies, more active use must be made of the region's potential in developing branches that manufacture high value-added products, as well as in expanding cooperation in the innovation sphere. Joint investment in production plants that are promising for the SCO market could be a fundamental way to create a favorable climate for regional integration. And implementing important regional projects in priority spheres of the economy would help to accelerate execution of the Multilateral Economic Trade Cooperation Program.

Border infrastructure must also be developed and transcontinental transport corridors (including rail) built.

Tajikistan believes that the new stage in SCO development should be marked by the striving of its member states toward implementing joint economic programs aimed in particular at supporting and encouraging weak national economies. In addition to creating favorable investment, socio-economic, and transport conditions, regional economic cooperation must also be enhanced; this will be conducive to reducing social tension and stabilizing the situation in the Central Asian region.

In our view, it is important to concentrate on projects relating to amelioration and the region's water industry and aimed at expanding cooperation in agriculture and the hydropower industry, as well as at implementing trans-regional transport projects.

⁸ Speech by President of the Republic of Tajikistan Emomali Rakhmon at an extended sitting of the Council of SCO Heads of State (Astana, 15 June, 2011), available at [http://www.president.tj/rus/novostee_150611.html].