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Policy Brief

Reimagining The Shanghai Cooperation Organization: A Critical Look and New Horizons

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New Transformation

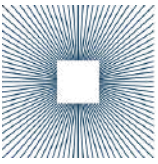
On July 4, 2024, at the Astana summit, the Shanghai Cooperation Organization (SCO) officially admitted Belarus as a member state, expanding its membership to ten countries [1]. Initially established as the “Shanghai Five”, a small coalition of five states to solve border delineating issues, the SCO has since evolved into one of the largest trans-regional organizations. Today the member states of the organization span over 35 million square kilometers and encompass a population of more than 3.5 billion, with the extended “SCO Family” including 26 states engaged at various interaction levels [2].

The organization’s Charter outlines the SCO’s primary objectives, which include maintaining and enhancing regional peace, security, and stability, collaboratively combating terrorism, separatism, and extremism, promoting economic growth, trade, and humanitarian efforts [3]. Since its foundation, and for most of its existence, the SCO has primarily promoted security and economic development

[1] Astana Times, “SCO Welcomes Belarus as Its 10th Member State”, July 2024, <https://astanatimes.com/2024/07/sco-welcomes-belarus-as-its-10th-member-state/>.

[2] Shanghai Cooperation Organization, “О Шанхайской организации сотрудничества” [“About the Shanghai Cooperation Organization”], December 15, 2015, <https://rus.sectsc.org/20151208/16789.html>.

[3] Shanghai Cooperation Organization, “Charter of the Shanghai Cooperation Organization”, June 7, 2002, <https://eng.sectsc.org/files/203013/203013>.



initiatives. This has led some researchers to dub the SCO a military bloc (the “NATO of the East”) [4] or a platform for a new multipolar world order [5].

However, after the organization’s first expansion in 2017, the declarations and joint documents of the SCO have increasingly focused on cultural-humanitarian, logistical, and ecologic topics, surpassing the emphasis previously placed on security, political, and economic issues. Each year, more agreements are reached on initiatives related to people-to-people friendship, international road transport, and traditional medicine, rather than on security and economics concerns. The decision-making process in the SCO is based on consensus. Thus, such a shift in priorities likely reflects internal disagreements and contradictions within the organization regarding new security and economic cooperation initiatives, as the consensus process struggles to accommodate the diverse and sometimes conflicting interests of its expanded membership.

One plausible explanation for this tendency is that the organization’s current structure is incompatible with the expanded composition of the SCO. Initially designed for a six-country format, these institutions did not anticipate the subsequent changes. While the leaders of SCO member states portray the organization’s expansion as a significant milestone in its “new development trajectory” [6], one of the potential growth directions is financial cooperation and economic development projects. However, as Uzbek President Shavkat Mirziyoyev highlighted in his address at the Astana Summit, trade and economic collaboration within the SCO region remains fragmented [7]. The proposed

[4] Ariel Cohen, “The Dragon Looks West: China and the Shanghai Cooperation Organization”, The Heritage Foundation, September 7, 2006, <https://www.heritage.org/asia/report/the-dragon-looks-west-china-and-the-shanghai-cooperation-organization>.

[5] Gisela Grieger, “China's Leading Role in the Shanghai Cooperation Organisation”, European Parliamentary Research Service Briefing, June 2015, 1-10, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2015/564367/EPRS_BRI\(2015\)564367_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2015/564367/EPRS_BRI(2015)564367_EN.pdf).

[6] Administration of the President of Russia, “Астанинская декларация Совета глав государств – членов Шанхайской организации сотрудничества” [“Astana Declaration of the Council of Heads of State of the Shanghai Cooperation Organization,”], July 4, 2024, <http://www.kremlin.ru/supplement/6163>.

[7] Official web-site of the President of Uzbekistan, “President of the Republic of Uzbekistan Takes Part in the Meeting of the Council of Heads of State of the Shanghai Cooperation Organization”, July 4, 2024, <https://president.uz/en/lists/view/7374>.



transformation would require new structures to breathe new life into it, specifically, new financial institutions. This brings back the proposal of a long-forgotten SCO Development Bank.

The Limit Is Reached

Historically, the SCO has particularly focused on addressing security issues. In this regard, the organization has made notable progress in the security and military cooperation fields. For instance, the member states established the Regional Anti-Terrorist Structure (RATS) to combat the so-called “three evils” (terrorism, extremism, and separatism) [8], intelligence sharing, and coordinate the activities of law enforcements in the region. Furthermore, member states launched series of military exercises, such as the “Peace Mission” among defense ministries [9], and joint “Counter-Terrorism” drills among the intelligence services and law enforcement agencies of SCO member states [10].



Source: Xinhua

However, after the inclusion of India and Pakistan (which have tense relations in the security field), the member states started exploring alternative security engagement options in the region through other international organizations and bilateral relations. For example,

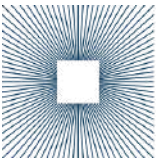
China, which previously cooperated with the Central Asian region in the military domain exclusively through the mechanisms of the SCO[11], shifted to bilateral military engagements. Notably, starting in

[8] Shanghai Cooperation Organization, “The Delhi Declaration of the Council of Heads of State of the Shanghai Cooperation Organization”, July 4, 2023, <https://eng.sectsc.org/files/207250/207250>.

[9] State Council Information Office of China, “A quick guide to SCO and its military cooperation”, June 5, 2018, http://english.scio.gov.cn/infographics/2018-06/05/content_51673238.htm.

[10] Shanghai Cooperation Organization, “В Китае состоялись антитеррористические учения Тянь-Шань-2 – 2011” [“China held anti-terrorist exercises “Tianshan-2 – 2011”], May 8, 2011, <https://rus.sectsc.org/20110508/58703.html>.

[11] Kenneth Allen, Phillip C. Saunders, and John Chen, “Chinese Military Diplomacy, 2003–2016: Trends and Implications”, China Strategic Perspectives 11, Institute for National Strategic Studies, National Defense University, July 17, 2017, <https://inss.ndu.edu/Portals/68/Documents/stratperspective/china/PLA-diplomacy-database.xlsx?ver=2017-07-18-133407-147>.



2019, Beijing initiated a series of counter-terrorism drills with Central Asian countries outside the SCO framework [12]. From a technical standpoint, all these bilateral military engagements align with the existing activities of the SCO and could have been implemented using its mechanisms. However, this would require navigating the consensus mechanism.

Furthermore, in 2013 on the basis of RATS member states launched a mechanism for collaboration among the border services of its member states. From 2013 to 2021, the SCO conducted at least eight joint border operations along both the external and internal borders of its member states [13]. Since 2019, the member states have also conducted the annual “Solidarity” joint border operations [14].

Despite these efforts, border tensions among member states persisted. In 2020, a clash between Indian and Chinese soldiers at the Sino-Indian border resulted in numerous casualties on both sides [15]. Additionally, in September 2022, the conflict between Kyrgyzstan and Tajikistan along their disputed border escalated sharply, leading to violent clashes characterized by heavy shelling and military equipment use, numerous casualties and significant civilian displacement [16]. However, the SCO remained largely inactive [17]. Experts argue that SCO mechanisms are not designed to address such

[12]Xinhua, “Xi Calls for Carrying Forward the Shanghai Spirit to Enhance Solidarity and Cooperation,” August 19, 2021, http://www.xinhuanet.com/english/2021-08/19/c_1310137264.htm.

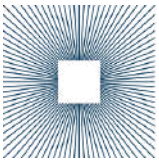
[13] Shanghai Cooperation Organization, “Сводный доклад '20 лет Шанхайской организации сотрудничества,” [“Summary Report '20 Years of the Shanghai Cooperation Organization”], November 30, 2021, <https://rus.sectsc.org/20211130/810791.html>.

[14] Regional Anti-Terrorist Structure of the Shanghai Cooperation Organization, “О восьмом заседании руководителей пограничных служб компетентных органов государств-членов Шанхайской организации сотрудничества” [“On the eighth meeting of the heads of border services of the competent authorities of the member states of the Shanghai Cooperation Organization”], June 21, 2022, <https://ecrats.org/ru/press/news/150/>.

[15] Reuters, “China Reveals Four Soldiers Killed in June 2020 Border Clash with India,” February 19, 2021, <https://www.reuters.com/article/world/china-reveals-four-soldiers-killed-in-june-2020-border-clash-with-india-idUSKBN2AJ05A/>.

[16] Kommersant, “Союзники по ШОС открыли залповый огонь,” [“SCO allies open salvo fire”], September 16, 2022, <https://www.kommersant.ru/doc/5569171>.

[17] Aijan Sharshenova, “More than a ‘Border Skirmish’ Between Kyrgyzstan and Tajikistan,” The Diplomat, September 19, 2022, <https://thediplomat.com/2022/09/more-than-a-border-skirmish-between-kyrgyzstan-and-tajikistan/>.



conflicts, which should be resolved through bilateral agreements [18].

Additionally, the SCO did not play a direct role in the crisis during the unrest in Kazakhstan in January 2022, with the situation being primarily addressed by the Collective Security Treaty Organization (CSTO). Experts speculate that the organization's structure and decision-making processes likely contributed to its inaction [19].



Source: ria.ru

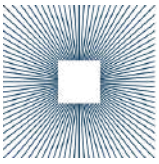
These cases may suggest that the consensus-based decision-making process is too slow to respond to emerging threats timely. Alternatively, it may indicate that the SCO mechanisms have reached their limits in the field of security cooperation. Thus, based on the established situation, the SCO now has to focus on the specific security threats that will satisfy all sides' interests. For example, during the 2024 Astana Summit, the member states decided to create an Anti-Drug Center in Dushanbe [20]. Consequently, the current level of interaction may remain static, and new security mechanisms, such as Iran's proposal to establish the SCO Police [21], may not achieve the intended outcomes.

[18] Abdullo Rahnamo, "Таджикско-Кыргызские Пограничные Конфликты. Кто на Самом Деле Арпецоп?" ["Tajik-Kyrgyz Border Conflicts. Who is the Real Aggressor?"], The Branch of Moscow State University named after M.V. Lomonosov in Dushanbe, November 30, 2022, <https://msu.tj/ru/news?id=390>.

[19] Vali Kaleji, "Why the Shanghai Cooperation Organization Was Absent in Kazakhstan", The National Interest, February 1, 2022, <https://nationalinterest.org/blog/buzz/why-shanghai-cooperation-organization-was-absent-kazakhstan-200199>.

[20] TASS, "ШОС создаст Антинаркотический центр в Душанбе" ["The SCO will create an Anti-Drug Center in Dushanbe"], July 4, 2023, <https://tass.ru/obschestvo/21271779>.

[21] Administration of the President of Russia, "Astana Declaration of the Council of Heads of State of the Shanghai Cooperation Organization".



Unfulfilled Ambitions

Documents adopted in the early years of the SCO indicate that trade, economic development, and integration were key focuses of the organization. China was a primary driver of these initiatives, aiming to increase investment in the region and potentially create a free trade area. In 2003, member states adopted the “Program of Multilateral Trade and Economic Cooperation,” which aimed to enhance the investment climate and create favorable conditions for trade among member states [22]. To facilitate these efforts, China proposed the establishment of the “SCO Development Fund” in 2004 [23].

However, it is conceivable that other member states were not eager to establish a free trade area with China immediately. Experts contend that Beijing’s promotion of Chinese trade interests in the SCO was viewed by others as “too aggressive and selfish” [24]. Therefore, the consensus was reached on founding less integrated types of economic cooperation frameworks. For instance, in 2005, to “implement joint large-scale investment projects in Central Asia region” [25], member states approved the foundation of the SCO Interbank Consortium (IBC). The Agreement on the IBC was concluded between the 6 big banks of member states [26] to develop the infrastructure development projects, attract syndicated loans, stimulate trade and regional economy [27].

[22] Shanghai Cooperation Organization, “Joint Communiqué, Meeting of the Council of Heads of Government (Prime Ministers) of the Shanghai Cooperation Organization,” September 23, 2003, Beijing, <https://eng.sectsco.org/files/197455/197455>.

[23] Shanghai Cooperation Organization, “Joint communiqué Meeting of the Council of Heads of Government of the SCO”, September 23, 2004, <https://eng.sectsco.org/files/197415/197415>.

[24] Alexander Lukin, “Шанхайская организация сотрудничества: что дальше?” [“The Shanghai Cooperation Organization: What's Next?”] *Russia in Global Affairs*, No. 3 (May/June 2007), <https://globalaffairs.ru/articles/shankhajskaia-organizatsiia-sotrudnichestva-cto-dalshe/>.

[25] Shanghai Cooperation Organization, “Joint Communiqué Meeting of the Council of Heads of Government (Prime Ministers) of the SCO Member States”, October 26, 2005, <https://eng.sectsco.org/files/197588/197588>.

[26] Shanghai Cooperation Organization, “Межбанковское объединение ШОС” [“The SCO Interbank Consortium”], July 16, 2019, <https://rus.sectsco.org/20190716/565256.html>.

[27] Lex.uz, “Соглашение Шанхайской организации сотрудничества о межбанковском сотрудничестве (объединении) в рамках Шанхайской организации сотрудничества” [“The Agreement on Interbank Cooperation (Association) within the framework of the SCO”], October 26, 2005, <https://lex.uz/ru/docs/2069028>.



In addition to the IBC, in 2006 the consensus mechanism approved the foundation of the SCO Business Council. This non-governmental entity comprises commercial organizations from all SCO member states, representing both public and private sectors. The Business Council was meant to assist member state governments in enhancing regional economic cooperation and bettering contacts “between the business and financial circles of the SCO countries” [28], and to attract them to regional projects outlined in the Program of Multilateral Trade and Economic Cooperation.



Source: Chamber of Commerce and Industry of Uzbekistan

Furthermore, in 2007, these two institutes signed an agreement to execute the decisions of the SCO in facilitating economic development in the region. Under the agreement, the Business Council would present prospective projects to the IBC, which could then offer recommendations and assistance in securing financial resources, or directly fund the projects if they met the IBC’s criteria [29].

[28] SCO Business Council, “Положение о Деловом совете государств-членов Шанхайской организации сотрудничества” [“Regulations on the Business Council of the Member States of the Shanghai Cooperation Organization”], June 14, 2006, https://bcso.ru/files/docs/polozhenie_ds_shos.pdf.

[29] Techexpert, “Соглашение о сотрудничестве между Межбанковским объединением ШОС и Деловым советом Шанхайской организации сотрудничества” [“Cooperation Agreement between the SCO Interbank Consortium and the Shanghai Cooperation Organization Business Council”], August 16, 2007, <https://docs.cntd.ru/document/902383843>.



However, except for a few accomplished projects, these two institutes did not achieve their set goals and results in boosting regional trade and funding large-scale development infrastructure projects. One of the possible explanations for their failure is that their model mimicked the approach of Asia-Pacific Economic Cooperation (APEC) agencies, which is mostly based on financing projects via private funds. Since the region lacked robust commercial entities and developed economies, APEC's strategies were ineffective when applied to the SCO. Private entities lacked either the capacity or the interest to fully fund the proposed projects [30].

Additionally, the system was neither obliged to fund the economic and development projects proposed by the SCO [31] nor did it possess its own financial resources. Consequently, even if specific projects were selected, there was no requirement for the parties to finance them. Moreover, both institutes lacked decision-making authority, which adversely affected problem-solving and implementation processes. This led to many proposed initiatives at SCO summits and meetings being postponed or neglected. For instance, the "SCO Youth Card" initiative, which aimed to create numerous opportunities for young entrepreneurs interested in establishing a "common business space" [32] within the SCO region, received significant attention from political leaders during the summits and meetings. However, it was ultimately not funded and was abandoned.

As the result, as noted by the Uzbek leader, the SCO failed "to create a solid foundation for multilateral trade and inter-sectoral partnership" [33]. It is arguable that the Chinese perspective attributed the failure of the existing economic structures of the SCO to the fact that these institutions were not real economic and financial tools. Thus, they came up with the idea of the bank.

[30] Alexander Lukin, "The Shanghai Cooperation Organization: What's Next?"

[31] Techexpert, "Cooperation Agreement between the SCO Interbank Consortium and the Shanghai Cooperation Organization Business Council", 2007

[32] Official website of Russia's Presidency in the Shanghai Cooperation Organization 2014-2015, "SCO Youth Card to increase contact between SCO member states", March 23, 2015, <http://en.sco-russia.ru/commentaries/20150323/1013315858.html>

[33] Official web-site of the President of Uzbekistan, "President of the Republic of Uzbekistan Takes Part in the Meeting of the Council of Heads of State of the Shanghai Cooperation Organization".



Banking Dilemma

During the 2010 SCO Summit in Dushanbe, Chinese Premier Wen Jiabao called sides “for deepening financial and monetary cooperation” and proposed the foundation of “SCO Development Bank” [34], which could issue loans with low-interest rates to long-financed infrastructure projects in the region. Under the bank, it was planned to establish the “SCO Development Fund (Special Account)”, which could also issue loans in case if member states experience a balance of payments or a budget deficit.

The crux of the issue lay in the existence of two competing concepts for creating the SCO Development Bank: one proposed by China and the other by Russia [35]. Beijing’s proposal included establishing a new financial institute, requiring member countries to contribute to the bank’s authorized capital in proportion to their economic size, measured by GDP or PPP. This proportional contribution would mean that China would receive the biggest share of voting power on the bank’s board [36]. However, experts assert that Russia was concerned about the swift economic and financial influence of China in Central Asia, a region the Kremlin regards as within its sphere of interests [37]. Therefore, Russia proposed to establish the SCO’s bank on the base of the existing structure [38]. In Russia’s eyes, the Eurasian Development Bank (EDB), which was founded by Russia and Kazakhstan in 2006 and had Tajikistan and Kyrgyzstan among its members, was the best candidate for that role. China was offered to

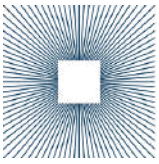
[34] Ministry of Foreign Affairs of the People’s Republic of China, “Wen Jiabao Attends and Addresses the Ninth SCO Prime Ministers’ Meeting”, November 26, 2010, https://www.mfa.gov.cn/eng/wjfb_663304/zzjg_663340/dozys_664276/roi/201011/t20101129_555226.html

[35] Alexander Gabuev, “Китай открыл счета в свою пользу” [“China has opened accounts in its favor”], Kommersant, June 16, 2011, <https://www.kommersant.ru/doc/1667463>.

[36] Alexey Mikhailov and Elizaveta Knyazeva, “Банк развития в структуре Шанхайской организации сотрудничества” [“Development Bank in the Structure of the Shanghai Cooperation Organization”], National Interests: Priorities and Security, no. 39 (324) (2015), <https://cyberleninka.ru/article/n/bank-razvitiya-v-strukture-shanhayskoy-organizatsii-sotrudnichestva>

[37] Alexander Gabuev, “Bigger, Not Better: Russia Makes the SCO a Useless Club” Carnegie Endowment for International Peace, June 2017, <https://carnegieendowment.org/posts/2017/06/bigger-not-better-russia-makes-the-sco-a-useless-club?lang=en¢er=russia-eurasia>.

[38] Alexander Gabuev, “China has opened accounts in its favor”.



join the EDB, with keeping Russian and Kazakh dominance in it [39]. Apparently, the differences in approaches to the bank ownership led the initiative to stagnate. Although the SCO official documents continue to highlight the necessity for consultations on establishing both the bank and the fund, there has been no advancement on this matter.

It is arguable that, upon realizing the SCO mechanisms would not allow China to fulfill its economic ambitions, China redirected its efforts into establishing the Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank (NDB).



Source: Daryo.uz

Interestingly, despite Russia's initial fears regarding China's economic dominance in the SCO Development Bank project, it ultimately emerged as one of the largest shareholders in these new financial institutions.

Simultaneously, Chinese leader Xi Jinping proposed the Silk Road Economic Belt at Nazarbayev University in Kazakhstan, which later evolved into the Belt and Road Initiative (BRI). Since then, Chinese economic initiatives have gradually started shifting from the SCO meetings to a bilateral format, which did not require approval of consensus mechanism. China's disappointment with the SCO has likely played a role in accepting new members, contributing to its current transformation. Eventually, the Chinese side abandoned the bank proposal, leading to the 2021 SCO Dushanbe Declaration, which articulated the member states' decision against forming a "military-political union or economic integration association with supranational governance institutions"[40] within the SCO.

[39] Victor Sanjinez, Han Huang, and Andrew London, "China and Russia: A Friendship with 'No Limits'," *South China Morning Post*, March 28, 2023, <https://multimedia.scmp.com/infographics/news/china/article/3214426/china-russia/index.html>.

[40] Shanghai Cooperation Organization, "Душанбинская декларация двадцатилетия ШОС" ["Dushanbe Declaration of the 20th Anniversary of the SCO"], June 14, 2021, <https://rus.sectsc.org/files/779610/779610>.



New Perspectives

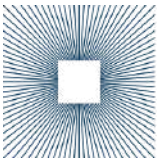
At the current stage, the SCO has significantly moved from the initial compact size group of states operating strictly on consensus basis, and has become the platform, where particular member states pursue their specific interests. Annual SCO declarations, adopted in the last two years, apply the phrase “interested member states” when it comes to economic initiatives like the SCO Economic Development Strategy, transport corridors, and other programs.

In its expanded format, the SCO now prioritizes regional connectivity, poverty alleviation, climate change mitigation, environmental protection, the digital economy, e-commerce, startups, and innovations. However, these development projects require funding sources which the SCO does not have. For growth, the organization must establish effective financial mechanisms. An independent development bank could vitalize these initiatives. However, creating such an investment tool would require a novel conceptual framework, distinct from previous SCO models.

This new concept of the bank should be based not only on the international (e.g. World Bank, ADB) but also on the regional (AIIB, NDB, CDB) experience of development banking. Three factors will play essential roles in the success of the future development bank: governance, operational structure, and capital strategy.

The main reason for the SCO’s bank failure was its governance principle. Experts argue that other member states were unprepared and apprehensive about potential economic dominance by China’s robust economy [41]. From this perspective, instead of applying China’s GDP or PPP size or Russia’s EDB formats, the shareholding proportion of the bank should be based on principles similar to those

[41] Zhao Huasheng, “Modern Approaches of China to the Shanghai Cooperation Organization”, Valdai Discussion Club, April 12, 2022, <https://valdaiclub.com/a/highlights/modern-approaches-of-china-to-the-sco/>.



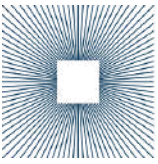
applied in AIIB and NDB to ensure balanced and effective governance. One approach is to distribute equal voting rights for founding members (the NDB model), which could ensure balanced decision-making. Another one is the shareholding based on financial contributions of member states (the AIIB model), with major contributors like China, India, and Russia holding significant shares. However, to maintain inclusivity and broad membership, smaller member states should also be given meaningful participation. Importantly, membership in the bank can be open to countries outside of the SCO region, with shareholding adjustments to support the bank's adaptability and long-term sustainability. This approach aligns with the SCO's strategic objectives of regional connectivity and economic development.

A crucial component is the operational structure. To ensure that the bank achieves its intended impact on the region and meets its goals, it is essential to grant the SCO bank sufficient operational flexibility. The bank should adopt a market-oriented framework with established international banking standards. Therefore, the bank's autonomy is vital for its success. It must prevent government interference in project recommendations to avoid power corruption. Project selection should be conducted by an independent collective review, with the bank president holding only veto power, not the authority to designate projects. This model of independent operation, successfully implemented by the China Development Bank (CDB), enabled the CDB to evolve from a standard policy bank handling government-assigned projects to one of the world's largest development banks, with over \$2.3 trillion in total assets [42].



Source: Shutterstock

[42] Jiajun Xu, "Market Maker: The Role of China Development Bank in Incubating Market," *Man and the Economy* 4, no. 2 (2017): 20170007, <https://doi.org/10.1515/me-2017-0007>.



The third key element is capital strategy. While the SCO Development Bank will fund projects at very low interest rates, the source of the capital is crucial. The CDB's experience reveals that most of the bank's income comes from local bond market operations. The future SCO bank could adopt a similar strategy of issuing bonds, for example, in a basket of national currencies, and raise funding domestically. The Chinese interbank bond market, along with the Russian and Indian bond markets, are viable options. CDB's role in poverty alleviation was indispensable and demonstrated that development banks should be an essential part of anti-poverty strategies in developing economies with underdeveloped market institutions and capital markets [43]. Therefore, along with adhering to international standards of development banking, regional experience should also be considered in the concept of the future bank.

In the pre-COVID-19 world, critics of the proposed SCO Development Bank contended that the region already had an adequate number of development institutions [44]. Experts specifically noted that the AIIB and the NDB had substantially addressed the development funding gap, diminishing the need for a new SCO-specific bank. Nonetheless, the ADB's 2023 report highlights a pressing demand: from 2023 to 2030,

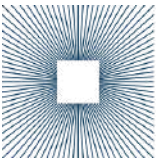
developing Asia requires \$13.8 trillion in infrastructure investments (or \$1.7 trillion annually) to maintain its current growth rate [45]. Presently, regional investments amount to only \$662 billion annually, with existing multilateral development banks contributing a mere 2.5% of this total [46]. Clearly, there is significant potential for additional development financial institutions in Asia.

[43] Ibid.

[44] Bas Hooijmaaijers, "Understanding Success and Failure in Establishing New Multilateral Development Banks: The SCO Development Bank, the NDB, and the AIIB." *Asian Perspective* 45, no. 2 (2021): 445-467, <https://doi.org/10.1353/apr.2021.0008>.

[45] Asian Development Bank, "Reinvigorating Financing Approaches for Sustainable and Resilient Infrastructure in ASEAN+3", May 2023, <https://www.adb.org/sites/default/files/publication/879411/financing-sustainable-resilient-infrastructure-asean3.pdf>.

[46] ASEAN, "A Special ASEAN Investment Report 2023: International Investment Trends: Key Issues and Policy Options," December 2023, <https://asean.org/wp-content/uploads/2023/12/AIR-Special-2023.pdf>.



Conclusion

The Shanghai Cooperation Organization has evolved significantly since its inception, expanding its membership and scope. Initially focused on security, the organization has diversified its agenda to include cultural, humanitarian, and economic initiatives. Despite its growth, internal disagreements and structural challenges have hindered progress in security and economic cooperation. The SCO's current structure, designed for a smaller group, struggles to accommodate its expanded membership and ambitions. To sustain its growth trajectory and regional influence, the SCO must consider innovative financial mechanisms, such as the proposed SCO Development Bank. This bank would require a novel governance and operational framework to succeed, drawing from both international and regional banking experiences.

Today member states recognize the necessity of financial support for project activities to fully realize the organization's investment potential. For example, leaders from Kyrgyzstan [47] and Iran [48] have advocated for the establishment of a bank. Nevertheless, despite the recurrent emphasis on the need for consultations in each annual SCO summit declaration, no significant progress has been made to date.

The foundation of the bank will be a significant move in the SCO's further transformation. By learning from both international and regional banking models, and ensuring balanced governance, operational flexibility, and a robust capital strategy, the SCO can effectively address its members' development needs and fulfill its broader ambitions. Otherwise, the organization would maintain the platform at a level suitable solely for hosting exhibitions such as "Eight Wonders of the SCO" and the "SCO Tourism Forum".

[47] Shanghai Cooperation Organization, "Выступление Президента Кыргызской Республики Садыра Жапарова на заседании Совета глав государств-членов ШОС" ["Speech by the President of the Kyrgyz Republic Sadyr Japarov at the meeting of the Council of Heads of State of the SCO Member States], July 5, 2024, <https://rus.sectesco.org/2024.0705/1428035.html>.

[48] TASS, "Иран поддержал идею создания Банка развития ШОС," ["Iran supported the idea of creating the SCO Development Bank,"], July 4, 2024, <https://tass.ru/ekonomika/21272331>.



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