

Strengthening Regional Ties: Policy Pathways Amid Post-SCO Summit 2024



Policy Recommendations

Establish a Multilateral Currency Swap Arrangement: The SCO should implement a multilateral currency swap framework, enabling member states to conduct trade in local currencies and reduce reliance on U.S. dollar transactions. This initiative would enhance regional financial resilience and foster deeper economic integration. Incorporating mechanisms similar to the Asian Clearing Union (ACU) could be another alternative.

Industrialization under CPEC's 2nd Phase: As CPEC enters its second phase, China, as a founding member of the SCO, has a unique opportunity to strengthen regional industrial collaboration by promoting investment in Pakistan's SEZs. By leveraging its influential position within the SCO, China can organize investment forums and encourage partnerships between Chinese enterprises and businesses from other member states, facilitating joint ventures and technology transfer in SEZs.

Policy Recommendations

Oil & Gas Exploration for Energy Security:

Energy security remained a key focus for collaboration between Pakistan and China. It is advised to extend joint efforts in oil & gas exploration, production, and infrastructure development. By establishing oil refineries and storage facilities along the CPEC route, both sides can diversify their energy sources.

Joint Accredited Testing Facilities: To overcome non-tariff barriers, the establishment of joint testing facilities and accredited laboratories is crucial. Implementing a mutually recognized certification and accreditation system across SCO countries will streamline trade, reduce redundancies, and facilitate smoother cross-border exchanges.

Advancing Regional Trade Integration: As a non-political alliance, the SCO has a unique opportunity to drive regional trade integration by developing a trade agreement akin to ASEAN's model. This would harness the economic potential of member countries while addressing the limitations posed by SAFTA, creating a robust framework for cooperative growth.

Cross-Border Banking Channels: It is recommended that Pakistani banks establish branches in the Central Asian Republics, while welcoming reciprocal branches from these nations in Pakistan to create formalized payment channels.

Steps for Stabilizing Trade Relations Between India and Pakistan: To stabilize trade relations between India and Pakistan, it is essential to initiate dialogue aimed at restoring trade to pre-2019 levels. Leveraging the momentum of the 2024 SCO Summit presents an opportunity to enhance bilateral economic cooperation

Joint Development of Renewable Energy Projects:

Pakistan and Iran should collaborate on solar and wind projects, leveraging Iran's renewable potential to meet Pakistan's energy needs. Joint efforts in PV plants, wind farms, grid integration, and storage technology will diversify energy sources and reduce fossil fuel dependency.

Unlocking Trade Potential Through Barter System:

By implementing the Barter system in accordance with S.R.O. 642(I)/2023, Pakistan can enhance trade relations with countries such as Iran and Russia, thereby circumventing the challenges posed by international sanctions.

Enhancing Connectivity with Central Asian Republics:

To strengthen ties between Pakistan and CAR countries, it is essential for Pakistan's National Highway Authority and Ministry of Foreign Affairs to collaborate with the Tajik government to develop road infrastructure through the Wakhan Corridor. Additionally, Pakistani authorities should expedite the Trans-Afghan Railway Project, establishing a direct railway link between Pakistan and Uzbekistan, which can potentially connect to Tajikistan in the future. Furthermore, increasing flights between CAR countries and Islamabad will enhance interactions and boost trade in the region.

Support for Tajikistan's QTTA Membership:

Pakistan should support Tajikistan's QTTA membership with China's involvement, positioning Tajikistan as a strategic storage hub for exports to CARs.

Policy Recommendations

E-Commerce and Digital Trade Initiatives:

SCO countries should prioritize a cross-border e-commerce framework to streamline transactions, integrating digital payments, cybersecurity, and consumer protection. Joint e-commerce platforms will empower SMEs with broader market access and reduced entry barriers.

Pakistan-Russia-Iran Trade Facilitation

Taskforce: Establish a task force with representatives from trade, government, and finance to streamline barter trade, resolve banking challenges, and strengthen cooperation in textiles, pharmaceuticals, and agriculture. Given Pakistan's reliance on Russia for wheat, the task force will play a crucial role in securing food supplies.

Access to Gwadar Port and Warehousing:

Pakistani authorities should ensure SCO countries have streamlined access to Gwadar Port and CPEC facilities to facilitate exports to South and East Asia. Authorities should prioritize essential warehousing at Gwadar, enabling efficient access to the Middle East and boosting Pakistan's revenue.

Strengthening Agricultural Cooperation

with Belarus: Collaborate with Belarus to enhance agricultural productivity, focusing on Halal certification and technology exchange. A permanent exhibit in Pakistan showcasing Belarusian technologies will foster mutual agricultural growth.

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Historical Background

The Shanghai Cooperation Organization (SCO) was established in 1996 to enhance regional security and foster cooperation among its member states. Initially formed as the "Shanghai Five", it comprised China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. Over the years, the organization expanded in membership and the scope of its activities. In 2001, Uzbekistan joined, leading to the rebranding of the group as the Shanghai Cooperation Organization. The SCO's focus has evolved from primarily addressing security concerns, such as combating terrorism and separatism, to include wider areas like economic cooperation, cultural exchange, and educational collaboration.

Significant milestones in its history include the signing of the SCO Charter in 2002 and,

the granting of observer status to countries such as Mongolia, India and Pakistan reflecting its growing influence in regional and global affairs.

Including major powers like India and Pakistan as full members in 2017 marked a pivotal moment for the SCO, enhancing its global profile and solidifying its role as a key player in Eurasian geopolitics. The organization aims to foster regional stability and prosperity through collaborative initiatives, such as the "One Belt, One Road" initiative, and by developing trade and economic ties among its members.

Notably, the SCO's unique position as a non-military organization distinguishes it from alliances like NATO, emphasizing cooperation over confrontation.

Map and Overview of Shanghai Cooperation Organization

Shanghai Cooperation Organization

The Shanghai Cooperation Organisation (SCO) is a Eurasian political, economic, and international security organization established in 2001.



23% Share in World GDP



17% Share in World Trade



Covering over 66% of Eurasia

Pakistan hosted the SCO Summit 2024 on October 15-16, attended by the prime ministers of China, Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, along with Iran's first vice president and India's external affairs minister.



Source: Authors' Illustration

Context and Significance

The recently concluded SCO Head of Government Meeting, held in Islamabad on October 15-16, 2024, marked a significant milestone for the member states. SCO is the world's largest regional organization, spanning 66% of Eurasia, covering 23% of the global GDP, and accounting for 17% of global trade (ITC, 2023).

Comprising China, Russia, India, Pakistan, Iran, Kazakhstan, Kyrgyzstan, Tajikistan,

Uzbekistan and Belarus, the SCO aims to foster cooperation across political, economic, trade, cultural, educational and technological scopes while addressing energy, transportation, tourism and environmental challenges.

SCO summit was a critical moment for Pakistan, showcasing its ability to provide a secure environment for international diplomacy and economic dialogue.

Shanghai Cooperation Organization Timeline



Source: Authors' Illustration

It highlighted the country's aspiration to leverage the SCO platform to foster trade integration and economic cooperation among member states. With vast natural resources in CARs, technological advancements in China, and Russia's energy exports, SCO offers immense trade

opportunities for Pakistan and other member nations.

Pakistan currently has an export potential of nearly USD 42* billion with SCO countries, which could rise significantly with reduced trade restrictions and enhanced market access.

*Note: Theoretical potential derived from the demand (imports by SCO member countries) and the supply capacity (exports from Pakistan).

Pakistan-China Bilateral Trade Outlook



China, the world's most populous country and the 2nd largest economy, plays a pivotal role in global trade and regional dynamics. Situated in East Asia, China shares borders with 14 countries, providing it with strategic returns for economic interactions. With a GDP of around USD 18 trillion in 2023, China is branded by a diverse economy driven by manufacturing, technology, and an expanding services sector. As a key member of SCO, China fosters economic cooperation and stability among its member countries, boosting regional connectivity.

From 2014 to 2023, Pakistan's trade deficit for goods with China grew from USD 7,336 million to USD 9,015 million, with a compound annual growth rate (CAGR) of 2.3% (Figure 1). In this period, Pakistan's exports to China increased from USD 2,253 million to USD 2,763 million, primarily in cotton (29.2%), copper (27.4%), and oilseeds (10.8%). Conversely, imports from China rose from USD 9,588 million to USD 11,778 million, driven by electrical machinery (26%), nuclear reactors (12%), and organic chemicals (9.5%). This highlights the shifting trade dynamics, with a widening deficit and steady growth in both exports and imports.

Pakistan's export potential to China is estimated at nearly USD 10 billion, with top sectors including rice, medical instruments, bovine animals, maize, and cotton t-shirts.

CPFTA also played a vital role in boosting trade between China and Pakistan. Phase II broadens preferential access to China's market for Pakistani exports, primarily in sectors like textiles & clothing, agriculture and pharmaceuticals. However, challenges remain, such as the need for Pakistan's exporters to improve product quality and compliance with Chinese standards to benefit from these trade concessions fully. There is significant potential for Pakistan to boost exports to China, mainly if NTMs on high-demand products are negotiated.

Pakistan's exports of services to China grew from USD 223 million to USD 281 million between FY20 and FY24. During the same period, Pakistan's imports of services from China also rose, increasing from USD 1.3 billion to USD 1.4 billion. As a result, the country's trade deficit in services with China widened, reaching USD 1.16 billion in FY24.

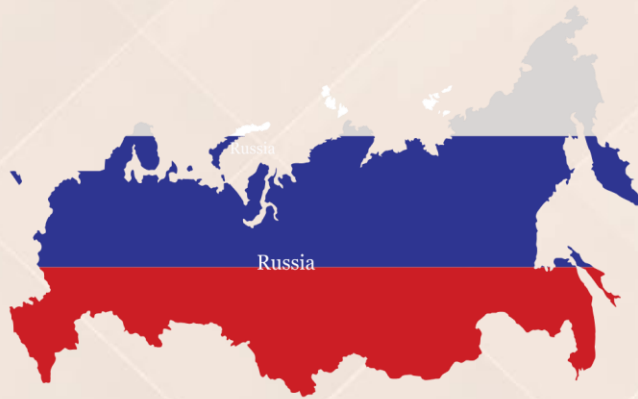
Pakistan-China Trade in Goods Over the Last Decade, USD Million



Source: ITC Trade Map

Figure 1: Trade Statistics of Pakistan and China, 2014-23

Pakistan-Russia Bilateral Trade Outlook



Russia, as a founding member of the Shanghai Cooperation Organization (SCO) and a leading force alongside China, has demonstrated sustained commitment to regional cooperation, particularly in addressing security challenges within post-Soviet Central Asia. Prime Minister Mikhail Mishustin's attendance at the 2024 SCO summit in Pakistan underscores this commitment.

Bilateral ties with Pakistan have recently strengthened, with a record USD 1 billion in trade reported over the past year. In September 2024, a Russian Deputy Prime Minister visited Pakistan to explore economic cooperation, despite U.S. and EU sanctions, including potential LNG purchases through barter trade. Pakistani officials also discussed with the U.S. State Department the feasibility of LNG imports from Russia at competitive prices.

The trade balance between Pakistan and Russia, however, has deteriorated markedly from 2014 to 2023. Pakistan's trade deficit with Russia expanded from USD 37 million to USD 803 million, reflecting a CAGR of 41% (see Figure 2). During this period, Pakistan's exports to Russia fell sharply, from USD 187 million in 2014 to a mere USD 89 million in 2023, with a negative CAGR of 8%.

Key exports to Russia in 2023 included articles of leather, cotton, optical and photographic instruments, and textiles. Conversely, imports from Russia surged from USD 224.9 million to USD 891.8 million over the same period, showing a CAGR of 17%. The primary imports from Russia in 2023 comprised cereals, edible vegetables, and mineral fuels and oils. Pakistan's export potential to Russia was estimated at USD 8.4 billion in 2023, with considerable prospects in sectors such as medical instruments, textiles and apparel, and food preparations.

In the services trade, Pakistan's exports to Russia rose from USD 3.3 million to USD 5.1 million between FY 2020 and FY 2024. However, imports of services from Russia increased more sharply, from USD 21.6 million to USD 49.1 million, expanding Pakistan's trade deficit in services with Russia from USD 18 million to USD 44 million over the same period.

Given these trends, it is essential for Pakistan to reevaluate its trade strategy with Russia to address the widening trade deficit and capitalize on potential trade opportunities within the region.



Source: ITC Trade Map

Figure 2: Trade Statistics of Pakistan and Russia, 2014-23

Pakistan-Central Asian Republics Bilateral Trade Outlook

(Excluding Turkmenistan)



The Central Asian economies of Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan, all members of the Shanghai Cooperation Organization (SCO), represent key trading partners for Pakistan within the region.

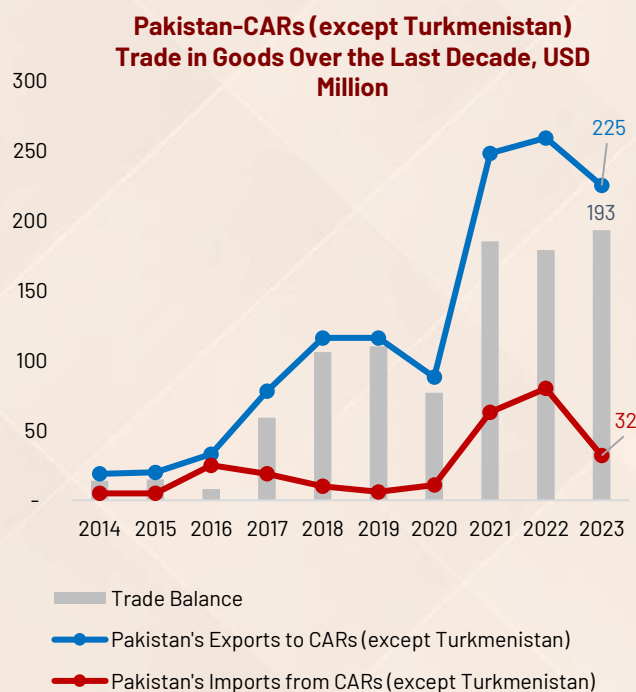
From 2014 to 2023, Pakistan's trade surplus in goods with Central Asian Republics (CARs), excluding Turkmenistan, increased significantly from USD 14 million to USD 193 million (Figure 3). During this period, exports to these CAR nations surged from USD 19.1 million to USD 225.2 million, achieving a robust compound annual growth rate (CAGR) of 31.5%; in 2023, these exports represented 7.3% of Pakistan's total exports to Shanghai Cooperation Organization (SCO) member states. Key export categories included 'Vegetable Products' (49.9%), 'Prepared Foodstuffs, Beverages, Spirits and Vinegar, and Tobacco' (18.9%), and 'Products of the Chemical or Allied Industries' (13.6%).

Meanwhile, imports from CARs also rose from USD 5.1 million to USD 32.1 million, reflecting a CAGR of 22.7%, primarily consisting of 'Vegetable Products' (71.6%) and 'Mineral Products' (17.0%). Pakistan primarily imported 'Vegetable Products' (71.6%) and 'Mineral Products' (17.0%) from these countries during this period.

Despite the trade growth, Pakistan has an untapped export potential of USD 6.3 billion to these CAR nations. Key sectors with significant export potential include textiles and textile articles and prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes.

On the services side, Pakistan's exports to CARs declined from USD 3.7 million to USD 2.2 million between FY 2020 and FY 2024, while imports of services rose slightly from USD 4.4 million to USD 4.7 million. This resulted in a widening trade deficit in services, increasing from USD 683 thousand to USD 2.5 million over the same period.

As Pakistan seeks to strengthen its trade and economic ties within the SCO framework, particularly with CARs, there is significant scope for enhancing both goods and services exports, particularly through targeted efforts to unlock export potential in textiles and foodstuffs.



Source: ITC Trade Map

Figure 3: Trade Statistics of Pakistan and CARs (except Turkmenistan), 2014-23

Pakistan-India Bilateral Trade Outlook



India has cultivated a longstanding relationship with the member countries of the Shanghai Cooperation Organization (SCO), facilitating its integration into the organization. Initially granted Observer Status in 2005, India became a full member in 2017. Over the past decade, India's active participation in SCO initiatives underscores its commitment to regional collaboration.

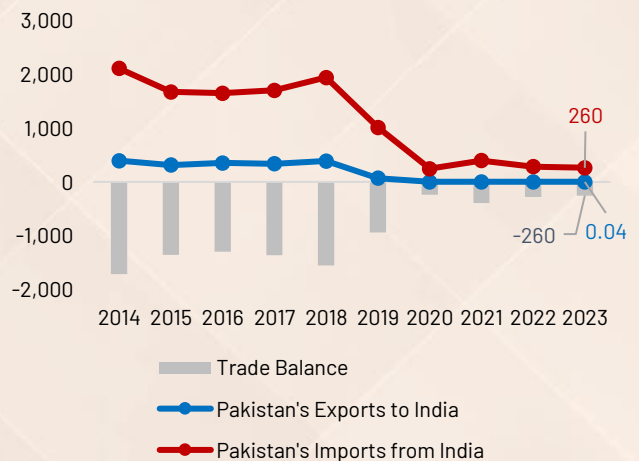
The 2024 SCO summit is notably significant as it follows Indian External Affairs Minister S. Jaishankar's visit to Islamabad, marking the first trip by an Indian foreign minister to Pakistan since 2015 and any Indian minister since 2016, despite ongoing tensions.

From 2014 to 2023, Pakistan's trade balance in goods with India improved significantly, with the trade deficit shrinking from USD 1,712 million to USD 259.9 million, a decrease marked by a CAGR of -19% (Figure 4). Over this period, Pakistan's exports to India fell steeply from USD 392 million to just USD 0.04 million, reflecting a CAGR of -64%, with exports in 2023 mainly limited to 'Organic Chemicals'. Conversely, imports from India dropped from USD 2,104 million to USD 260 million, demonstrating a CAGR of -21%.

Key imports in 2023 included 'Organic Chemicals', 'Pharmaceutical Products', and 'Plastics and Articles Thereof'. This trend underscores a marked reduction in bilateral trade between the two countries. Despite these challenges, Pakistan has significant export potential to India, estimated at nearly USD 5.9 billion in 2023. Key sectors with substantial export opportunities include 'Textiles and Textile Articles,' 'Optical and Photographic Instruments,' and 'Vegetable Products.'

Furthermore, Pakistan's exports of services to India decreased from USD 10.8 million to USD 8.5 million, while imports of services from India dropped sharply from USD 22.3 million to USD 2.2 million between FY 2020 and FY 2024. This decline contributed to a narrowing of Pakistan's trade deficit in services with India, reducing it from USD 11.5 million to USD 2.2 million over the same period. As both nations navigate their complex relationship, fostering trade ties could pave the way for greater economic cooperation and stability in the region.

Pakistan-India Trade in Goods Over the Last Decade, USD Million



Source ITC Trade Map

Figure 4: Trade Statistics of Pakistan and India, 2014-23

Pakistan-Belarus Bilateral Trade Outlook



Belarus, a key nation in Eastern Europe, officially became a full member of SCO in July 2024. As a landlocked country, Belarus shares borders with Russia, Ukraine, Poland, Lithuania, and Latvia. It is strategically positioned as a transit hub between Europe and Russia, benefiting its economy and trade market. Belarus has a diversified industrial base, specializing in manufacturing machinery, chemicals, and agricultural products. As a new member of the SCO, Belarus aims to strengthen ties with other member states, including Pakistan, by boosting trade, economic collaboration, and regional security cooperation.

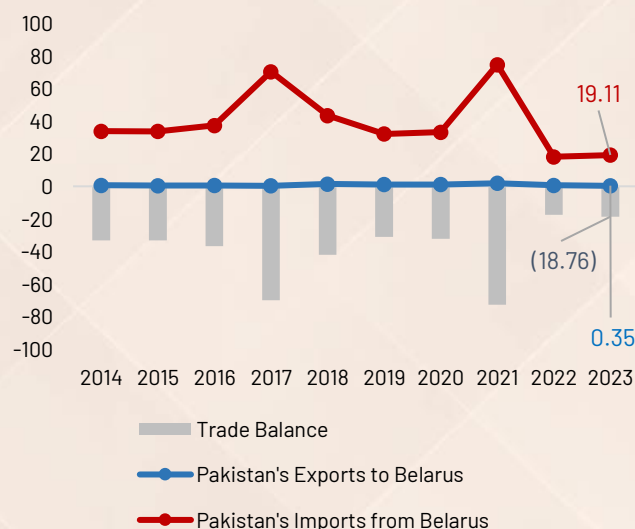
Over the last decade, Pakistan's trade deficit with Belarus decreased from USD 33 million to USD 18.7 million at a CAGR of -6% (Figure 5). To further economic ties, the two nations are finalizing a "Trade Road Map 2025-27" and have signed MoUs, including collaboration in the textile sector at the 7th Joint Ministerial Commission. Pakistan's exports to Belarus declined from USD 0.05 million to USD 0.34 million (CAGR of -5%), with primary exports in 2023 being optical & photographic parts (60%), apparel (19%), cotton (10%), leather (5%), footwear (3%), and toys (2%).

Imports from Belarus also fell from USD 34 million to USD 19 million (CAGR of -6.1%), with leading imports in 2023 comprising vehicles (81%), cereal preparations (11%), man-made staple fibers (3%), wood pulp (2%), and nuclear reactors (1%). Future collaborations will focus on technology, agriculture, industry, pharmaceuticals, and electric bus production.

Pakistan has an export potential of almost USD 5 billion to Belarus. The primary potential sectors include optical & photographic parts, plastics, pharmaceutical products, edible fruits, and nuclear reactors with a potential value of USD 442 million, USD 368 million, USD 309 million, USD 248 million and USD 220 million, respectively.

Pakistan's exports of services to Belarus improved from USD 0.069 million to USD 0.192 million while its imports of services from Belarus also increased from USD 0.66 million to USD 1.8 million during FY20 – FY24. This worsened the country's trade deficit in services with Belarus and reached USD 1.57 billion for FY24.

Pakistan Belarus Trade in Goods Over the Last Decade, USD Million



Source: ITC Trade Map

Figure 5: Trade Statistics of Pakistan and Belarus, 2014-23

Pakistan-Iran Bilateral Trade Outlook



Meanwhile, imports from Iran increased considerably, from USD 185.7 million to USD 949.9 million with a CAGR of 20%, primarily including Mineral Fuels and Oils, Iron and Steel, and Edible Vegetables.

Despite these challenges, there remains significant export potential for Pakistan in its trade with Iran, estimated at nearly USD 6.5 billion in 2023. Key sectors poised for substantial export opportunities include Fruits and Vegetables, Textiles and Apparel, and Cereals.

Pakistan's service exports to Iran saw an increase from USD 0.01 million to USD 0.92 million while service imports from Iran increased sharply from USD 4 thousand to USD 8.6 million between FY 2020 and FY 2024. This trend contributed to a widening of Pakistan's trade deficit in services with Iran, which decreased from USD 0.005 million to USD 7.6 million over the same timeframe.

As both nations navigate their economic relationship within the SCO framework, this barter trade system represents a strategic initiative to bolster bilateral trade and strengthen regional ties.

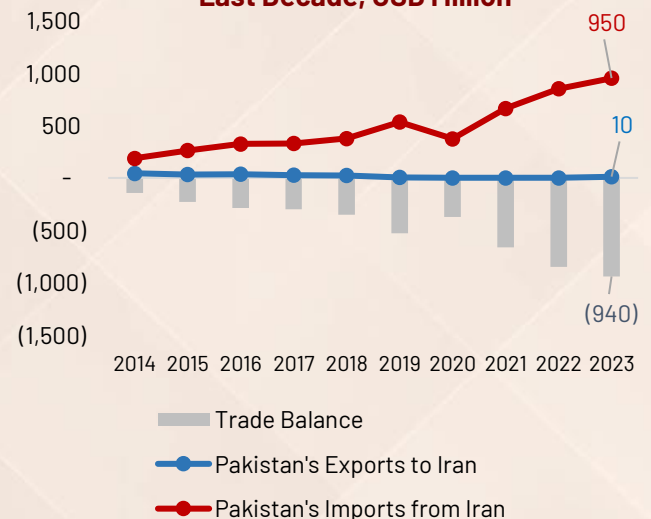
Iran, in 2021, joined the Shanghai Cooperation Organization (SCO) as its ninth member, with Saudi Arabia, Egypt, and Qatar becoming Dialogue Partners. This membership bolsters Iran's international standing and signals to the US and EU that it can break free from isolation without modifying the Joint Comprehensive Plan of Action (JCPOA).

In this context, Pakistan has established barter trade agreements with Iran and Russia, enabling the exchange of specific goods, including petroleum and gas, to circumvent Western sanctions and ease its balance of payments crisis. The Business-to-Business Barter Trade Mechanism allows Pakistani entities to export 26 commodities to Iranian and Russian markets while importing crude oil, liquefied natural gas, and other essential goods.

From 2014 to 2023, Pakistan's trade balance with Iran deteriorated sharply, with the deficit widening from USD 142.7 million to USD 939.9 million (Figure 6).

This shift reflects significant challenges in Pakistan's export sector, as exports to Iran declined from USD 40 million to USD 10 million at CAGR of -15%. Exports in 2023 were mainly concentrated in Nuclear Reactors, Boilers, and Machinery and Vehicle Parts and Accessories.

Pakistan Iran Trade in Goods Over the Last Decade, USD Million



Source: ITC Trade Map

Figure 6: Trade Statistics of Pakistan and Iran, 2014-23