

ECONOMIC DIVERSIFICATION IN SCO MEMBER STATES: OPPORTUNITIES AND CHALLENGES

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Received: 05 May, 2024

Revised: 05 June, 2024

Accepted: 17 June, 2024

Published: 30 June, 2024

ABSTRACT

Diversification is a critical factor that contributes to the growth and sustainability of economies, especially the member countries of the SCO. The research focuses on the opportunities and challenges of economic diversification in the member countries of the SCO. The variables used for the analysis include dependence on the traditional sectors, the prospects of the new sectors, and the influence of the global economy. Some of the major factors that have been considered as opportunities include energy markets, infrastructure development, technology collaboration, regional liberalization, and FDI inflow. On the other hand, the challenges include internal economic reliance, weak institutional frameworks, underdeveloped technology, visa/bureaucratic impediments, and geopolitics. This paper seeks to present an overview of the current economic status, as well as policies of the SCO member states to analyze and understand the factors that may help the countries to diversify their economies for sustainable growth and stability.

Keywords: Shanghai Cooperation Organization (SCO), Economic, Diversification, Infrastructure, Technology Collaboration, FDI, Political Instability

1. INTRODUCTION

In the process of rapid globalization and shift in the world economy, it has become imperative for regional associations and their members to embrace one of the strategic tasks of economic diversification. It is important for minimizing the risks associated with overreliance on a small number of industries, as well as for the achievement of sustainable development goals and enhancing economic resilience. However, for such regional organizations as the SCO, which has some of the world's most rapidly growing and dynamic economies, diversification is not an option but a necessity that will unlock the cooperation and stability prospects (Antony, 2023).

The SCO as an organization and member state is a relatively recent player in the system of regional geopolitics and economic integration and was created by the Shanghai Five which was created in 1996. It was initially composed of China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan; however, the main purpose was to address the issues of borders

and the development of security agreements. This group was expanded and upgraded to the SCO by 2001 with Uzbekistan as a full member and with India and Pakistan joining in 2017 (Khetran, 2019).. This expansion was not only the enlargement of the scope of the organization geographically and politically but also culturally and economically. Interestingly, the SCO is one of the most inclusive organizations, and its objectives encompass not only the area of security but also the field of economic cooperation. It is located at the Europe-Asia crossroad as a center and plays an important role in fostering cooperation of the countries that play critical roles in the global energy supply and international trade (Yussupzhanovich & Tulkunovna, 2019).

India and Pakistan's joining as new members was a positive change in the SCO as both members possess large market, technology, and industrial potentials. With the addition of these new members, there are more economic and political prospects in the

organization through cooperation and development chances that not only introduce new partnership opportunities but also introduce new conflicts of interest and new developmental agendas for each of the member states (Ali et al., 2019). Yet another strength of SCO is the various backgrounds of the member states. The SCO is situated from the Central Asian states with oil and gas potential to the rapidly industrializing and technologizing countries like India to efficiently coordinate and co-operate. Such diverse membership is beneficial for popularizing the organization's agenda which has evolved to encompass efforts on enhancing economic cooperation, forming communication platforms, and various types of liberalization of trade, making the SCO a key actor in modern Eurasian economic and security dynamics (Yussupzhanovich & Tulkunovna, 2019).

The regional block's economy is majorly based on natural resources and constitutes the economy of some of the Central Asian countries (Ahmed, 2018). Kazakhstan and Uzbekistan are two prime examples where their Gross Domestic Product heavily depends on the exports of oil, natural gasses, and other minerals. This makes their economic status directly tied to changes in the international prices for commodities, thus making them vulnerable to changes in the global prices of commodities and pressure from outside their economies. It is striking that the resource dependency is accompanied by the economic circumstances of the relatively new SCO members India and Pakistan (Contessi, 2015). These two South Asian giants bring an additional and quite challenging dimension of industrial and technological realities into the SCO process. India as a rapidly developing technological power and an emerging industrial powerhouse presents a contrast to the resource-based economies of the Central Asian states. It has strong information technology, pharmaceuticals, and service sectors, opening up the prospect for new economic collaboration within the SCO framework. Likewise, Pakistan, an economy focusing on manufacturing industry and agriculture having the aim to boost the technological base of the country also gives another facet of economic strength to SCO (Khetran, 2019). The recent efforts of Pakistan to diversify its economy through targeting software exports and light manufacturing is a direction that has the potential to be fruitful within the SCO framework. The presence of such diverse economies under the umbrella of the SCO offers

several potential possibilities and risks. The organisation therefore can balance such diverse economic objectives and competitive advantages that will define the path to unity and development among all parties involved. Yet, this makes the policy prospects for each member state more diverse, equipped with a much better chance to handle their vulnerabilities toward any transformation in the global economy by striking more collaborative stands that could pave the way for the creation of a more integrated and stronger regional economic bloc (Kovaleva et al., 2018).

When analyzing the role of specific factors in understanding the SCO, economic diversification emerges as one of the significant strategies that can be employed to deal with the prospects and issues arising from the dominance of several industries or goods. The economic development of the member states of the SCO is different and all the states are quite responsive to the shifts in the global economy especially those of the states that are dependent on the export of crude oil and other minerals (Vorona et al., 2020). Economic diversification is the only possible course, not as a whim forced by the fluctuations of the international economy but as the only way to achieve lasting economic development. For many of the SCO member states, diversification means the expansion of the manufacturing technology and service sectors apart from the resource-based ones. It is especially important for those regions that experience significant changes in their economic structure, and transition from agricultural and farming industries to manufacturing and services ones (Alimov, 2018). These nations can employ their populations, remain stable, and reduce their exposure by supporting sectors less sensitive to world prices, such as information technology, renewable energy, and modern industrial goods. Economic diversification of the SCO region also promotes the sharing of technologies besides the emergence of new sectors through the integration of different sectors. Thus, the opportunity to develop new energy markets can be regarded as one of the most significant potential investment avenues for SCO countries' economic development. For example, the shift into digital technologies contributes to the strengthening of a digital economy while also improving the outcomes and international efficacy of traditional industries through digitization (Alimov, 2020). In the same way, the use of renewable energy sources not only helps reduce the

dependence of developing countries on foreign oil but also goes toward meeting the global trend toward sustainable living.

In this regard, the diversification of economic activities within the SCO does not simply mean the enlargement of the number of branches and sectors but their strategic development based on the interdependencies that can open the vast potential for common economic security and development. This helps to build up each member state of the SCO as well as improve the overall economic body of the organization, making it more capable of coping with the effects of the global economic instabilities (Qadir, 2016).

The importance of economic diversification is well understood within the economic policies of countries, however, when it comes to regional unions like SCO, there remains considerable research void. Despite the existence of numerous academic works that investigate the micro-level issues of different SCO Member States' economic policies, there is still a significant gap in the literature that covers the topic of how these countries approach and manage the process of diversification in general (Delgado & Siamwalla, 2018). This absence of collective emphasis does not address the opportunities for synergy and commonalities that could dramatically affect the possibility of success in diversification across the region. This article seeks to fill this gap by providing a comprehensive comparison of the economic diversification initiatives within the SCO (Kirton & Larionova, 2022). Thus, analysis of the specificity of both the challenges experienced by member states and the similarities and differences in the problems they face will contribute to the understanding of the nature of the tasks and the context of diversification in the regional setting. Additionally, it will examine benefits within that context, for instance, 'technology pillars,' integrated renewable energy projects, or industrial cooperation in joint industrial parks, which, in turn, can encourage differentiated and sustainable development (Kirton & Larionova, 2022; Yuan, 2023). Aside from helping define regional economic strategies better, this approach also contributes to the improvement of knowledge regarding the potential capabilities of regional affiliations for overcoming similar weaknesses. Due to the recognition of these deficiencies and prospects, the article will shed light on recommendations that are preferable to be

followed by policymakers and economic planners of the SCO (Saha, 2023).

The main purpose of this paper is to provide a comprehensive analysis of economic diversification prospects and issues in the context of Shanghai Cooperation Organisation (SCO) member states. It will examine how these nations with these different economic structures and varying degrees of resource reliance can leverage their SCO membership to formulate and implement efficient strategies of diversification (Gater-Smith, 2018). Different factors could influence or interfere with the precision and the period it will take to develop the findings of the research. Also, the disparities of power in terms of political and economic connections within the member countries may be a drawback in the improvement of the cooperative strategies (Khan et al., 2023). That is why this research attempts to go further and unveil not only the discourses that are potentially possible to consider the paths towards economic diversification but also the issues that might emerge within the framework of the SCO. The overall structure of this article is planned carefully to provide a comprehensive analysis of economic diversification within the framework of the Shanghai Cooperation Organisation (SCO) (Alimov, 2018; Sharma & Sharma, 2016). The focus of the article is to include real-life examples from some of the member countries of the SCO (Rauf, 2020).

2 Opportunities

2.1 Expanding Energy Markets

SCO countries possess approximately 25% of total world's total oil and over 50% of the gas resources, which indicates that they play a crucial role as the suppliers of energy sources. The establishment of the SCO Energy Club shows that there is a continuous process of developing the concept to promote the development of energy cooperation as one of the key priorities of foreign policy and increasing the potential of the SCO member states to stabilize and regulate the global energy markets, given their control over the energy prices on the international market (Muratovich & Mohammad, 2021). This green energy plan is not only intended to bring a more stable energy source but also to allow the inclusion of renewable sources of energy, which demonstrates the development of a more sustainable energy supply. In addition, the geographical location of these countries augments their vital position as key transit that links energy-supplying countries to the

powerful buyers in Asia and Europe, thus contributing towards the integration and development of the region's economy Centre for Public Policy Research (Korneev & Pechishcheva, 2020). Such a strategic focus on energy not only ensures the members guarantee their energy supply but also allows them to become drivers of crucial strategic change in the political and economic affairs of their regions as well as in advancing the agenda of economic diversification through the development of new energy assets (Mudiam, 2018).

2.2 Infrastructure Development Initiatives

Infrastructure development within the SCO member states remains an important drive that enables countries to diversify their economies and make the region stable. The leading position of China, primarily through the implementation of the BRI concept has introduced a new factor into the infrastructure of the SCO countries. These projects include developing roads, and railways, among others, which gives member states a means of facilitating trade and economic cooperation (Na-Xi et al., 2019).

Moreover, as it has been mentioned, the World Bank also tends to sustainable infrastructure development and believes that infrastructure can be profitable and help to solve such issues as environmental or social ones. It helps to prevent spending money on things that are too costly to maintain and not very beneficial for a large number of people in the SCO area. Therefore, the stress on sustainable practices in the infrastructure projects that form the support structure for the development of these countries aligns with the global development goals and the effort to erect a formidable economy for these nations (Allison, 2018).

This strategic focus on infrastructure not only increases the economic potential of the union but also contributes to the process of building rapprochement and integration, with the SCO becoming a more consolidated organization capable of addressing the tasks and challenges of the modern economic world. These projects, therefore, contribute to economic growth besides pulling member states closer together, a foundation that is vital for the stability and development of the region in the long run (Na-Xi et al., 2019).

2.3 Technological Cooperation

The cooperation in the technologically related sectors which is important for economic diversification of the SCO member states is also associated with many implications for International Relations. It also strengthens the regional capabilities and sets the geopolitics and economic relations between the member states of SCO. According to IR, the development of technological cooperation can consolidate political solidarity, increase confidence, and augment member countries' status in the international system. Some concrete and mutual benefits are also seen by the SCO nations in the scientific and technological cooperation in the form of legal and institutional frameworks apart from boosting internal technology and diplomacy (Song & Pavličević, 2019). They serve to develop a more coherent regional bloc so that the nations can bargain more effectively on the international level.

However, the preparation of model legal acts and the formation of S&T cooperation consortia or councils strengthen the formation of a 'shared future community,' an idea that is advocated as part of the SCO. This corresponds with the shift in modern IR where collaboration goes beyond mere material gains towards a more comprehensive concept of collaboration as a means of addressing multiple global problems and challenges such as climate change cyber issues, and sustainable development among others (Dexue, 2021). Technological partnership can, therefore, be seen as a mediator in IR where technology pulls different countries into a web of not just economic relations but also strategic and security relations. These dynamics change the nature of the SCO in the direction of making this organization more coherent and impactful in global politics in the framework of the vision of the multipolar world, where regional associations have certain crucial roles in the maintenance of interest, stability and balance all over the world (Non-Traditional).

2.4 Regional Trade Agreements

RTAs by SCO member countries are effective as a tool that forms an economic diversification strategy among the participating countries. These agreements are important in the context of improving the trade capacities of the developing/least developed members of the organization to avail maximum advantages of regional integration. As stated in the research, these RTAs' effects can be viewed in terms

of neoliberal institutionalism, a theory in International Relations (IR) that suggests institutions are critical for encouraging cooperative international relationships and thus decreasing anarchy in the system (Griller et al., 2017).

Neoliberal institutionalism argues that RTAs help steer the trade rules in predictable and stable directions through the process of eliminating trade barriers. Such stable behavior is particularly important for the developing countries of the SCO as it allows for long-term planning and could not be achieved in settings with increased volatility. The agreements act as guidelines that encourage the enhanced exchange of goods and services hence promoting trade liberalization that in the long run will help in improving the growth and welfare of the country hence eradicating inequality and poverty as the states adopt the international economy globalization. Thus, this analysis highlights the role of institutions in international trade and indicates that regional trade initiatives can be effectively used as a lever to solve national problems with the help of forming multilateral cooperation (Rauf, 2020). It is through the analytical examination of RTAs that this paper underscores the potential of these two objectives in the achievement of economic diversification as well as the creation of a fairer global trading system which was envisaged under neoliberal institutionalism to support the development paths of the SCO member states within a systematic and cooperative global environment (Boyko, 2023).

2.5 Foreign Direct Investment (FDI) Influx

Foreign FDI proves to be significant in the diversification of the economy by enhancing remarkable economic development within the SCO member state. The findings of the papers under review showed that FDI boosts technology accumulation, updates managers' knowledge and experience, and opens the door to foreign markets. Such investing helps transform the local industries in a manner that can boost production rates while significantly contributing to the growth and stability of the economy in the concerned regions (Shen, 2022). Thus, FDI not only produces tangible benefits but also creates a positive impact on society from the angle of economic liberalization. In this respect, they are of the essence in transferring knowledge and technologies which are key inputs in any given innovation and competitiveness strategy. The

following transfer promotes human capital and a more sophisticated industry of skilled labor. The papers also stress the fact that the imminent conditions that facilitate FDI are favorable regulatory environments that foster FDI, which are envisaged to offer optimum benefits in FDI (Pilipović et al.).

Furthermore, another benefit of FDI in these studies is that it provides the SCO member states not only with the opportunity to diversify their economy but also to decrease the existing dependence on the traditional sectors. It is emphasized that the transition to a more diverse economic structure contributes to sustainable development, improves the stability of national economies and their insulation from the negative effects of economic cycles of the world economy (Zreik, 2023).

2.6 Development of Service Sectors

The Shanghai Cooperation Organization is one of the most successful formations in the development of the service sectors among all the member states and created an interstate regional partnership model for the further development of the economy in the respective countries. This cooperation is particularly apparent in the new global interaction's dimensions of global and regional politics, regionalism, and globalism. The details have been explained in the SCO framework underlining that it stipulates a dual format of cooperation that does not Have a prescription level of engagement and develops as a result of the shared vector of interests of the member states (Weidenfeld, 2018).

This strategy has helped cultivate the service industries in the Eurasian section to complement the member countries' national development policies and large-scale programs like OBOR and EAEU. Thus, making the SSC a cooperation platform promotes synergy in the integration of service industries over vast geographical regions achieving regional economic stability together with growth. The technology sector, transport, and communication sectors are part of the service industry which facilitates the relations between developed and developing countries leading to a unified global community of states interested in addressing the common challenges in economic growth and development (Contessi, 2015). Additionally, the SCO's principle of equality and decision-making on a democratic basis means that every member state regardless of the size of its economy or its political power has a vested interest

in the evolution of the service sectors in the region. This inclusive and cooperative approach assists in finding ways and resolve regional issues appropriately, providing more focus on the development and diversification of the economy among the member states (Alimov, 2018).

2.7 Enhanced Regional Security Cooperation

The SCO has greatly facilitated the promotion of increased security cooperation in the region especially under the leadership of China. Since the period following the break-up of the Soviet Union, the SCO has developed into an essential forum for the maintenance of the security of the region, which addresses various issues throughout Central Asia. India becoming a member of the new site of the SCO was also an attempt to increase its geopolitical power and an opportunity to develop the ability of the organization to deal with threats effectively with its addition of new members including Pakistan (Hasnat & Awan, 2016).

China's engagement with the SCO is therefore closely associated with its other foreign policy strategies toward building a new world order composed of multiple poles, also as a result of balancing against the United States. Thus, by using the SCO, China aims to enhance the institutional balancing in the aforementioned area, giving preference to collective security approaches of the member state with no one-sided pursuit of the lone superpower (Chao, 2022). It acknowledges the organization, known as the SCO, as a tool with which this country not only strengthens its borders and sub-region but also extends its influence throughout Eurasia. It is constructive to incorporate that India and Pakistan have brought new balance in relations to the SCO making its strategic importance and its security agenda more complicated. These developments point to the important role that the organization plays in the formation and management of regional security frameworks and stress the possible utility of the latter as an instrument for further geopolitical bargaining and security regulation in the Eurasian space (Wacker, 2015).

3 Challenges

This article investigates the internal and external challenges of economic diversification in the member country of the Shanghai Cooperation Organization (SCO) by applying a realistic theoretical framework for political, economic, and

social challenges. Considering the emphasis of realism on interstate competition for power, national interests, and an anarchic international system, a realistic take provides an appropriate framework to make sense of the intricacies and strategy behind economic diversification efforts by states in SCO. An economy diversified enough to overtake an extraordinary focus on one or two economic sectors is important also in its long-term sustainability (Mostafa & Mahmood, 2018). For SCO member states, starting from Central Asian republics that are rich in resources and ending with industrially developed countries such as Russia and China, diversification is not just an important strategic goal, but also one of the major tasks. Realism, aspiring to apprehend international relations as a system of anarchy and rivalry between autonomous actors in search of authority and protection, contributes to the understanding of the many-sided challenges to these endeavors (Boschma et al., 2018).

3.1 Internal Challenges

3.1.1 Economic Structures and Dependencies

Mainly, the SCO economies, including Kazakhstan and Turkmenistan, have their focus on extraction industries as the main result of their economic activity. Realism further postures that such states mainly target the highest near term economic revenues from such sectors irrespective of the future economic health and diversification. The oil and gas industry makes about 60% of Kazakhstan's total export earnings and nearly 33% of the country's GDP According to 2019 data (Chao, 2022). This reliance of Iraq on oil export makes its economy volatile and sensitive to the changes in the world oil prices. In the same manner, natural gas forms 25% of Turkmenistan's GDP and a little over 40% of its exports. The assessed performance also creates a cause for concern since the country's economic prospects remain highly dependent on movements in the world energy market (Contessi, 2015).

Institutional Weaknesses

Introducing new investments and innovations helping in diversification is hampered by institutional inefficiency and corruption. From the perspective of realism, all these domestic impediments point to the fight for power and resources within these states and political elites may frown at reform measures that seek to dent their authority. According to the 2020 Transparency

International index, SCO nations such as Tajikistan and Uzbekistan remain almost as corrupt, which poses a serious threat to their attempts at economic diversification. The reports of the World Bank reveal that most of the SCO nations have low ratings on parameters such as 'Starting a Business' or 'Dealing with Construction Permits' where bureaucratic constraints are evident (Gürcan, 2022).

3.1.2 Technological Underdevelopment

Insufficiently developed technological facilities block the opportunity to upgrade in the sphere of hi-tech or prospective fields. In the realist paradigm, technological development is seen mainly from the standpoint of a strategic battle where parties may choose to restrain collaboration with a view of safeguarding their own technological industries. Latest studies estimate overall internet usage at around 60% in countries like Uzbekistan and Kyrgyzstan, far below the global average and notable of the technology gap which prevents a move to more diversified economic activities (Marochkin & Bezborodov, 2022). Currently, SCO members allocate less than one percent of their GDP to the development of research, whereas it is at a two percent world average. This is 23% (2018 data), thus potentially slowing down technological development and deployment.

3.1.2 Visa and Bureaucratic Procedures

High visa requirements and bureaucratic formations substantially hinder internal conditions toward diversifying the economic base in SCO member states. Such procedures discourage foreign investments and limit the mobility of human capital, which is critical to fostering new industries and the sectoral diversification of the economy. In Russia and the Central Asian republics, it can take several months to obtain a work visa and other business-related clearances (Russo & Russo, 2018). Such delays can make the targeted markets unattractive for investments and limit the operational flexibility of enterprises that are interested in the corresponding markets. Analyzing the indices provided by the World Bank's business reports, it again becomes clear that SCO countries mostly rank low in starting a business, getting construction permits, and trading across borders, which indicates considerable bureaucratic red tape that hinders the ease of doing business and economic growth (Lu, 2018).

3.1.3 Economic Policy Discrepancies and Lack of Coordination

The lack of harmonized economic policies in the member states of the SCO poses a major challenge to attempts at diversification. The heterogeneity of economic interests and initiatives based on distinct domestic interests and development implies inconsistent and incoherent patterns of economic integration and diversification across the region. Due to the members' countries' diverse economic development and distinct economic legislation, economic policies and standards within SCO differ. For instance, although China is promoting innovation, and high-tech industries, some of the Central Asian members are still interested in simple agriculture and resource-intensive structure usually through their infrastructural and institutional developments (Mujahid & Ali, 2015). The current members of the SCO represent vastly different stages of development, which have an impact on the ability of the group's members to put in place and reap the fruits of shared policies on the economy. These disparities always create major clashes of interests that affect the ability of a group to embark on economic diversification endeavors. All these challenges are inherent in the domestic environment or peculiarities of the developing SCO member states. Dealing with them calls for not only national change but also improvement in cooperation on the regional level to synchronize policies and make conditions more favorable for developing the non-oil sector (Kirton & Larionova, 2022). The constraints to internal economic diversification within the SCO member states are well embedded in economic systems, institutions, and technologies. Realists have pointed out that these hurdles are not just economic but are also spearheaded by security and political considerations specific to the interests of the involved states. In order to overcome these challenges, the SCO member countries require action focused on the improvement of institutions, development of an enhanced investment in technology and education, and maintenance of anti-corruption efforts. It is important to note that these steps are crucial not only from the point of economic diversification but also concerning the future stability of the region and correspondingly its adaptability (Xin & Xin, 2021).

3.2 External Challenges:

3.2.1 Global Economic Integration

The SCO states are heavily reliant on the export of a few commodities and hence the dynamics in the global markets of trade wars, economic sanctions, and fluctuating prices impact the SCO states more than other states. Realism further underlines the impact of the external economic dynamics that may amplify vulnerabilities and reduce policy space in the economy. Nature's dominant oil and gas exporter countries are Russia and Kazakhstan. For example, the oil and gas export constitutes approximately 40% of Russia's federal budget and almost 60% of Kazakhstan's total foreign exchange from exports. Measures like the Western countries' sanctions on Russia have been significant, which limited Russia's access to the international financial systems and affected the energy sphere. Trade wars, particularly the one between the USA and China distort the norms of international trade and court unpredictabilities that have an impact on the SCO member economies that rely on the export of commodities to these massive markets (Kolpakova & Kuchinskaya, 2015).

3.2.2 Geopolitical Tensions and Competition:

The SCO member states' relations, including India-Pakistan and China-Russia rivalries, make it challenging to cooperate on the development of diversified and economically interlinked economies. According to realist theory, especially in security studies, states are most interested in power transition and balancing against threats which may cause the overlooking of EU's economic strategies that in fact rely on cooperative stability (Antony, 2023). The ongoing conflict has been negative to stability and integration in the region because of the SCO. The tension absorbs much political and economic capital, which would otherwise be invested in mutually beneficial economic initiatives. Both are members of the SCO, but their rivalry for power and resources in Central Asia sometimes prevents them from moving in a coordinated manner when it comes to formulating regional economic strategies (Singh & Singh, 2021).

3.2.3 Influence of External Powers

EU and the US in the vicinity of SCO through various economic cooperation and strategic partnerships bring their own bias and halfway allegiances in the region. In Realism, it is argued that these powers tend to use economic instruments to

control the SCO member states, which complicates the issue of united diversification. The EU's Strategy for Central Asia is based on developing an interest in the region in non-interference, stability, economic cooperation and investment, environmental protection, education, and culture, for which substantial funds are allocated (Lambert et al., 2022). Similarly, the New Silk Road Initiative by the United States of America is "geared towards connecting Afghanistan to its neighbors through a network of economic and trade relations. Such initiatives can lead to the formation of parallel or competing economic tracks or endeavors that potentially undermine SCO-led diversification strategies. For example, the EU tends to focus on governance and reforms in exchange for economic assistance can sometimes contradict the Chinese approach and is more concerned with infrastructure within the frameworks of the SCO (Allison, 2018).

3.2.3 Regional Economic Overlaps and Institutional Conflicts

The existing regional structures and cooperation formats in which SCO members and participants are active, including the Eurasian Economic Union (EAEU) and the Commonwealth of Independent States (CIS), provide opportunities for conflicting interests and policy duplication that can hinder coordination of consistent economic strategies within SCO. Some of the countries that are part of the SCO include Russia, Kazakhstan, and Kyrgyzstan, while the EAEU is made up of Russia, Kazakhstan, Kyrgyzstan, Belarus, and Armenia. Depending on the EAEU some economic policies and trade agreements may overlap or compete with SCO charter and create confusion and political derailment for member countries. The given EAEU has a customs union, including common external tariffs; it can limit some SCO member states' capacity to negotiate more favorable or diversified separate trade agreements, suitable for their national interests (Berulava et al., 2019).

3.2.3 Competition from Global Economic Initiatives

Economic projects by the major powers including the US' Greater Central Asia Project and the Japanese "Central Asia + Japan" dialogue introduce alternatives, which might imply shifting of attention and finances from SCO-led processes. Several of these initiatives offered by the US involve the

improvement of bilateral relations and infrastructure in Central Asia which are straight-up rivals to China’s BRI and its integration into the economy of SCO. Through the dialogue mechanism, Japan has raised its profile and potential for involvement in the region more favorably than Chinese or Russian initiatives in the SCO, providing a large amount of aid and investment. Such initiatives may lead to the potentially fragmented economic space in the region, as some SCO member states may prefer to engage in bilateral or other external multilateral activities more than develop SCO-centred initiatives. It does not only weaken the SCO economic policies but can also have a divergence perspective for unison in addressing regional problems (Kurecic, 2017). These external challenges exemplify the conditions of increased international pressure under which the SCO member states act. Examining these challenges from a realistic vantage, it is possible to identify that besides being an economic issue, they are linked to geopolitical strategies and the balance of power at regional and international levels. Managing all of these is not without its fair share of challenges especially if there is little understanding of the internal strengths and weaknesses and external opportunities and threats (Nie, 2019).

4 Role of the SCO in Promoting Economic Diversification Through Realism

The Economic Cooperation within the framework of the Shanghai Cooperation Organization (SCO) plays a strategic role in its member States, utilizing the Members Strengths in contributing to Economic diversification. From a realist perspective, the SCO can be viewed as helping members achieve a balance

of power and creating conditions that would strengthen their economies against external influence. Strategic Partnerships, Large-scale projects such as the China-Kazakhstan Cooperation Fund and China-Russia East-Route Natural Gas Pipeline can be viewed as representing SCO strategic partnerships. These projects do not only enhance bilateral relations but also foster the non-reliance of economic cooperation through the development of infrastructure for many sectors (Non-Traditional). The SCO helps in pursuing trade partnerships that are strategic in the sense that they are not dependent on outside markets. For example, the Agreement on Facilitation of International Road Transport seeks to enhance linkages and business between members and transport and logistics business hence acting as a driver to the transport diversification strategy. These initiatives may be seen as stemming from the Realist view that states engage in economic cooperation for reasons which include the desire to increase their relative capabilities and power in the system (Karami, 2023).

5 Prospects and Policy Recommendations

Forecasting the potential further evolution of economic diversification in the SCO countries based on the realist perspective has focused on the security powers in the region and beyond. Realism is an international theory that holds that states’ behavior is geared towards the acquisition of power with the aim of dominating or being superior to all other powers. For SCO member states this principle means economic policies that are aimed at improving their geopolitical position based on diversification, especially in strategic segments (Tjia, 2022).

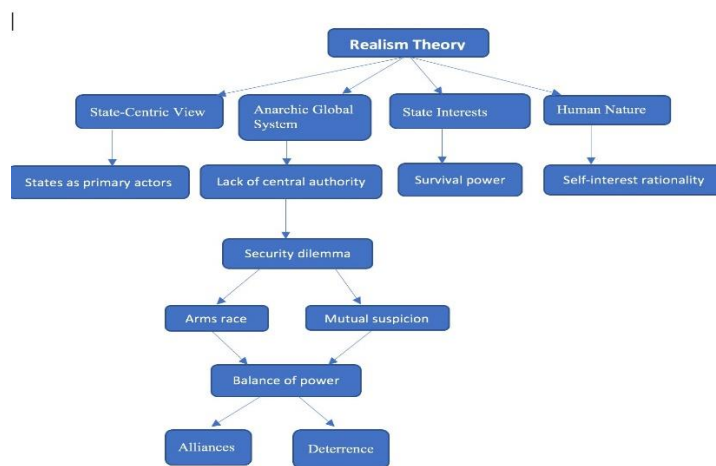


Figure 1: Shows Realism Theory and State Ideals Flowchart

5.1 Continued Focus on Strategic Sectors

In the SCO, countries like Russia and Kazakhstan that are oil and gas-rich should maintain investing in these resources so as to consolidate their position as strategic players in the global power equations. These countries have relied mainly on oil and gas exports and therefore could be inclined to diversify within power segments in the energy business by implementing technology to manage output. This strategic focus also applies to the key factors such as renewable energy sources essential in the global energy market. In this way, these states not only seek to balance their energy resources mix but also to secure their strong stand in the process predictive for the majority of countries the shift towards reliance on renewable energy sources (Boschma et al., 2018).

It is also important to note that the focus on targeted sectors goes beyond energy. The other SCO member countries are in the process of developing their industrial capacities and intend to shape their digital economies and manufacturing sectors. The objective is, therefore, to diversify away from reliance on revenues from a limited number of commodities or export markets and to create strong economies against which external shocks, such as shifts in the global economy or the application of sanctions, cannot have a severe impact (Maduz, 2018).

5.2 Bilateral over Multilateral Cooperation

The spectrum of economic development and the rates of economic growth in SCO members also play a significant role in cooperation within the mentioned organization. Moving from this premise, realism believes that states only join agreements that best benefit them, and this has been evidenced by the preference for bilateral agreements. Bilateral cooperation is even more suitable for working out objectives without the need to make compromises with other partners, as is the case in multilateral cooperation. This approach can be observed in the development of the numerous bilateral trade relations, and cooperation in business and production within the frames of the SCO such as the numerous China-Kazakhstan industrial cooperation and the Russia-China energy cooperation (Ruslan, 2023). Such agreements are usually more efficient when it comes to the solutions for the most critical and relevant necessities and interests of the participating states, enable wider engagement, and embrace the far greater potential for both parties. While this emphasis on bilateralism serves the interests of

stability and the building of trust between the involved states, it raises questions for the SCO as a multilateral organization. It poses the danger of generating a web of affiliations that may or may not be in the best interest of the region as a whole, thus resulting in tension or uneven growth of the region's economy. Therefore, looking at the future of economic diversification in SCO member states from the realist perspective, further consolidation of strategic sectors and bilateral relations that are beneficial for the enhancement of the might and security of the individual states will prevail. These strategies will determine the development of the SCO's economic architecture as it addresses domestic requirements and responds to the challenges of the multifaceted process of globalization (Nazarova, 2023).

5.3 Policy Suggestions for Enhancing Diversification Efforts

To effectively enhance economic diversification efforts, the following policy recommendations are proposed:

Strengthen the Multilateral cooperation of the SCO to an organization that can efficiently facilitate diversification. This constitutes making provisions for economic relations and setting out ways of handling conflicts that may arise when countries that are members are engaged in economic rivalry. Promote cooperation and absorption mechanisms that enable the sharing of technology and innovation between member states (Contessi, 2015). This can be realized through Research and Innovation Centers whereby countries collaborate on certain areas of research that uniquely position them amongst other member states. Include sectors beyond energy and infrastructure in the SCO's economic agenda; consider integrated digital economy, agriculture, and manufacturing. Measures may contain digital Silk Road programs that call for technological adoption across various value chains. Ongoing fund infusion is laid in projects that enhance infrastructure and regulatory compatibility among member countries (Boschma et al., 2016). This includes coming up with measures to ease the customs procedures and harmonizing them with the trade policies that are in place. The promotion of economic diversification or realism is thus concretized in the SCO's spirit of strategic cooperation to improve the sovereignty of member states. The SCO can substantially strengthen the economic potential of its members by adopting

policies to encourage innovations, expand cooperation, and improve connectivity. In this way the SCO's members will be better equipped to address challenges in the worldwide economic environment (Mostafa & Mahmood, 2018).

6 Conclusion

Diversification of the economy is a necessity for the member states of the SCO to transition towards sustainable development as it provides a path to diversify the economy and build more robust economies. The prospects of diversification are enormous; from the natural resource wealth to adopting new technologies, to promoting sub-regional integration. However, the realization of these opportunities comes with large hurdles like economic structural rigidities, a poor financial system, political instability, and infrastructural inefficiencies.

To address these challenges, SCO member states must have long-term and strategic approaches in place. These should involve policy changes to establish a favorable environment for the development of new industries, improvement in education and infrastructure to support new sectors, and improvement in regional cooperation to enhance the flow of information and resources. Through these actions, SCO member states will be able to develop stronger and more diverse economic bases, which will have a positive impact on the future economic welfare of the population. It is the conclusion that only combined and long-term efforts in policymaking will enable the diversification of the economy and the change of threats into opportunities for a more stable economy in the future.

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