

<https://doi.org/10.17059/ekon.reg.2025-3-11>

UDC 336

JEL G15, G18

Wenhong Xu  

Institute of Russian, Eastern European and Central Asian Studies, CASS, Beijing, China

## Financial Cooperation in the SCO Amid Intensifying Regional Integration<sup>1</sup>

**Abstract.** Following three rounds of expansion, the Shanghai Cooperation Organization (SCO) has become the world's largest comprehensive regional cooperation organization in terms of territory and population. Finance is the lifeblood of modern economies, underpinning economic development and regional stability. Financial cooperation in regional organizations serves as a key driver of economic integration, coordinated development, and enhanced international competitiveness. This study examines financial cooperation among SCO member states, focusing on major initiatives and achievements, and reviews the Organization's development, mechanisms, challenges, and opportunities. It analyses the SCO's role in promoting regional financial stability and economic growth, highlighting key mechanisms such as regional financial security, anti-money laundering and counter-terrorist financing, and local currency settlements. Despite challenges, including economic disparities among members and external uncertainties, the SCO can advance regional financial cooperation through multilateral mechanisms and financial innovation. The study provides a comprehensive assessment of existing resources, evaluates the potential of current intra-SCO mechanisms, and identifies both well-established and emerging areas of collaboration. By offering a panoramic view of financial cooperation within the SCO, this research summarizes past achievements and outlines pathways for future development.

**Keywords:** Shanghai Cooperation Organization (SCO), member states of the SCO, Financial Cooperation, Regional Economy, Multilateral Financial Mechanisms, Financial Innovation

**Acknowledgments:** *This research is an intermediate outcome of the innovation project "Russia's Economic Development Path and Sino-Russian Economic and Trade Cooperation" at the Institute of Russian, Eastern European, and Central Asian Studies, Chinese Academy of Social Sciences (Project No. 2022EOYA02).*

**For citation:** Xu, W. (2025). Financial Cooperation in the SCO Amid Intensifying Regional Integration. *Ekonomika regiona / Economy of regions*, 21(3), 728-740. <https://doi.org/10.17059/ekon.reg.2025-3-11>

<sup>1</sup> © Xu W. Text. 2025.

## ИССЛЕДОВАТЕЛЬСКАЯ СТАТЬЯ

В. Сюй  

Институт России, Восточной Европы и Центральной Азии Китайской академии общественных наук, г. Пекин, Китай

## Финансовое сотрудничество в рамках ШОС в условиях усиливающейся региональной интеграции

**Аннотация.** Пройдя три этапа расширения, Шанхайская организация сотрудничества (ШОС) стала крупнейшей в мире многофункциональной региональной организацией по охвату территории и численности населения. Финансы – важнейший элемент современной экономики, от которого зависит экономическое развитие и стабильность в регионах. Финансовое сотрудничество в рамках региональных организаций является ключевым фактором экономической интеграции, согласованного развития и повышения международной конкурентоспособности. В данном исследовании рассматривается финансовое сотрудничество между государствами – членами ШОС с акцентом на основных инициативах и достижениях, также анализируется развитие организации, механизмы её работы, проблемы и возможности. Особое внимание уделяется роли ШОС в обеспечении региональной финансовой стабильности и стимулировании экономического роста с помощью таких инструментов, как поддержание региональной финансовой безопасности, борьба с отмыванием денег и финансированием терроризма, а также расчёты в национальных валютах. Несмотря на существующие вызовы, в том числе экономические различия между членами и неопределённость внешней среды, ШОС способна продвигать региональное финансовое сотрудничество с помощью многосторонних механизмов и финансовых инноваций. В статье дается комплексная оценка имеющихся ресурсов, анализируется потенциал механизмов ШОС и рассматриваются как уже устоявшиеся, так и перспективные направления сотрудничества. Представленный обзор финансового взаимодействия внутри ШОС позволяет подвести итоги прошлых достижений и определить пути дальнейшего развития организации.

**Ключевые слова:** Шанхайская организация сотрудничества (ШОС), государства-члены ШОС, финансовое сотрудничество, региональная экономика, многосторонние финансовые механизмы, финансовые инновации

**Благодарности:** Это исследование является промежуточным результатом инновационного проекта «Путь экономического развития России и российско-китайское экономическое и торговое сотрудничество» при Институте России, Восточной Европы и Центральной Азии Китайской Академии общественных наук (номер проекта: 2022EOYA02).

**Для цитирования:** Сюй, В. (2025). Финансовое сотрудничество в ШОС в условиях усиливающейся региональной интеграции. *Экономика региона*, 21(3), 728-740. <https://doi.org/10.17059/ekon.reg.2025-3-11>

### Introduction

The Shanghai Cooperation Organization (SCO) was established in 2001. On June 9, 2017, at the Astana Summit, India and Pakistan officially became member states, marking the first expansion of the Organization since its founding. In July 2023, Iran joined as a full member, followed by Belarus on July 4, 2024, at the SCO Heads of State Council meeting in Kazakhstan. After these three rounds of enlargement, the SCO now has ten full member states and stands as the world's largest comprehensive regional cooperation organization in terms of both territory and population.<sup>1</sup>

At its inception, the SCO identified political security, economic and trade cooperation, and people-to-people bonds as its three framework pillars (Alimov, 2018). Among these, economic and trade cooperation has grown to encompass

economic exchanges, financial cooperation, digital technology, and energy security. Financial cooperation in regional organizations plays a vital role in advancing economic integration, fostering coordinated development, and enhancing both financial stability and international competitiveness. Within the SCO, as cooperation among member countries has deepened, the financial sector has grown to be particularly important, with the scope of joint initiatives steadily expanding.

Amid global uncertainties and rising unilateralism, financial cooperation within the SCO has become a critical foundation for regional integration. It supports trade, investment, and infrastructure projects while enhancing economic resilience and members' capacity to manage crises. Beyond channelling capital into real-economy initiatives, such as industrial-capacity partnerships, energy development, and technological innovation, SCO financial collaboration also advances institutional

<sup>1</sup> Due to space limitations, this paper focuses solely on the discussion of full member states of the SCO.

development through mechanism building, local-currency settlement, policy coordination, and financial innovation.

This paper summarizes more than twenty years of SCO cooperation into three developmental stages, highlights five cooperation platforms as key achievements, and identifies three priority areas for future collaboration. By assessing existing resources and the potential of current intra-SCO mechanisms, the study highlights established areas of financial cooperation and points to new opportunities. It offers a broad overview that reviews the organization's past achievements while outlining directions for future development.

The analysis is anchored in three dimensions—mechanism effectiveness, funding efficiency, and spillover effects—and formulates testable quantitative hypotheses. All variables are drawn from publicly available data, with clearly defined expectations. To systematically examine the impact of SCO financial cooperation and provide a basis for empirical testing, the study considers the following hypotheses:

H1 (Mechanism-Effectiveness Hypothesis). The SCO financial-cooperation mechanism completeness index (discrete 0–5 scale, where 0 = no mechanism and 5 = simultaneous presence of local-currency swap agreements, joint rating framework, dispute-resolution mechanism, regulatory sandbox, and green-finance guidelines) is expected to exert a positive effect on the financing-completion rate of member states' cross-border infrastructure projects for every one-level increase.

H2 (Funding-Efficiency Hypothesis). Projects whose share of local-currency settlement (LCR) exceeds 30 % are hypothesized to exhibit a 1.5–2.2 percentage-point lower weighted-average cost of finance (WACF, including interest and FX-hedging costs) than USD-settlement benchmarks. This interval reflects an assumed threshold drawn from international financing practice; more precise figures will be validated with empirical data on external investment and lending.

H3 (Spillover-Effect Hypothesis). Growth in both the volume of funding and the number of projects under SCO financial cooperation is expected to strengthen overall financial collaboration among member states and generate positive spillover effects in related sectors.

Empirical findings indicate that as the SCO's financial-cooperation mechanism has matured, the Organization has moved beyond symbolic capitalization and entered an efficiency-driven stage.

## Theoretical Framework

This study draws on theories of regional economic integration, international financial cooperation, institutional economics, development economics, and geopolitical economics. Through a combination of case study and comparative analysis, it examines the historical evolution, current status, challenges, and future prospects of financial cooperation within the SCO framework. The use of these theoretical approaches adds analytical depth and offers a sound basis for policy-making.

## Data and methods

This study employs a combination of research methods, including literature analysis (of official SCO documents such as the Outline of Multilateral Economic and Trade Cooperation among SCO Member States<sup>1</sup> and its implementation plan<sup>2</sup>), case study analysis (a review of the SCO Interbank Consortium), comparative analysis (contrasting Chinese and Russian proposals for establishing the SCO Development Bank), and quantitative analysis. It draws on multiple sources, including official documents, reports from international organizations (primarily SCO publications), and data from member states, to examine the history, current status, and future pathways of financial cooperation within the SCO framework. The integration of these methods and data enhances the study's analytical rigor and persuasiveness while providing robust support for policy formulation.

## The Evolution of Financial Cooperation within the SCO

Since its inception, the SCO has prioritized financial cooperation, formally established in 2003 through the Outline of Multilateral Economic and Trade Cooperation, which provided the legal foundation for joint initiatives. SCO financial collaboration has since progressed through three main stages.

<sup>1</sup> The Outline of Multilateral Economic and Trade Cooperation among SCO Member States is an important policy document that guides the SCO's economic cooperation, defining areas of collaboration and setting plans and goals for future development. Two versions have been adopted: the first in September 2003, and the updated 2019 Edition, approved at the 18th Meeting of the Council of Heads of Government in November 2019.

<sup>2</sup> Shanghai Hezuozuzhi chengyuan guo zhengfu shou nao (zongli) lishihui liánhé gōngbào [Joint Communiqué of the Council of Heads of Government of SCO Member States] [https://www.gov.cn/gongbao/content/2004/content\\_63039.htm](https://www.gov.cn/gongbao/content/2004/content_63039.htm), (In Chinese), (Date of access: 05.02.2025).

— Exploration (2001–2010). The 2003 Outline first introduced goals of facilitating trade and investment and exploring regional financial cooperation. In 2005, the SCO Interbank Consortium was created to finance infrastructure projects. In response to the global financial crisis, the first meeting of finance ministers in 2009 issued a Joint Statement<sup>1</sup>, emphasizing macroeconomic policy coordination and opposition to trade protectionism, laying groundwork for local currency settlements.

— Institutionalization (2011–2020). The meeting of finance ministers in 2012 promoted local-currency settlements and proposed establishing both an SCO Development Bank and a special account. With the launch of China's Belt and Road Initiative, the 2017 Astana Declaration<sup>2</sup> emphasized interconnectivity between the CIPS (Cross-border Interbank Payment System) system and SCO members' financial infrastructure.

— Innovation (2021–present). Cooperation has expanded into green and digital finance. The 2021 finance ministers' meeting incorporated the green economy and digital inclusive finance into the framework. The 2023 SCO Economic Development Strategy up to 2030 identified green transformation and the digital economy as priorities. In 2024, an Interbank Consortium seminar proposed accelerating the establishment of the SCO Development Bank and exploring new financing models, signalling a new stage of development.

### **Mechanisms of Financial Cooperation within the SCO**

Over the past two decades, the SCO has gradually developed a dual-layer financial cooperation framework, comprising government-level meetings of finance ministers and central bank governors, alongside mechanisms among financial institutions. In this section, we will examine each layer in more detail.

#### **(I) Meetings of SCO Finance Ministers and Central Bank Governors**

The SCO Finance Ministers and Central Bank Governors' Meetings form a government-level

financial cooperation mechanism among member states. Evolving from ad hoc discussions into a regular framework, it now serves as the core platform for fiscal and monetary coordination. Through high-level dialogue, members align policies, promote regional financial cooperation, support economic development, deepen trade relations, and strengthen the SCO's global economic position.

With the expansion of SCO membership, the coordination of economic policies and financial cooperation has grown increasingly complex. While consensus is often reached at meetings, turning agreements into concrete actions still requires joint effort. As cooperation deepens, meetings of SCO finance ministers and central bank governors will remain crucial for advancing regional economic collaboration.

### **(II) Five Platforms of SCO Financial Cooperation: Financial Institutions**

SCO financial cooperation is primarily conducted through financial institutions. Over two decades, this cooperation has gradually formed five key platforms: the SCO Interbank Consortium, SCO Development Fund, SCO Bank, China-Eurasia Economic Cooperation Fund, and SCO International Capital Port Currency Exchange Alliance.

#### **1. The SCO Interbank Consortium**

The SCO Interbank Consortium was established in 2005 and is now a cornerstone of SCO financial cooperation, providing financial support for investment projects backed by member states' governments. The consortium promotes regional economic cooperation and socioeconomic development. On October 26, 2005, the Agreement on Cooperation of the SCO Interbank Consortium was signed at the SCO Prime Ministers' Meeting in Moscow, establishing a legal foundation and mechanisms for consultation, coordination, and information exchange.

The consortium operates through a three-tier structure—council, coordinating committee, and senior officials' meetings—holding annual sessions. It has developed guiding documents, a unified project database, and engages in project financing, institutional development, and personnel exchange. Over the years, it has provided billions in loans for projects in infrastructure, energy, major industries, agriculture, and SMEs, supporting regional economic development and improved living standards.

China Development Bank, a founding member and the largest participant, plays a major role by

<sup>1</sup> Shanghai Hezuozuzhi chengyuan guo cai chang he zhong yang yin hang hang zhang hui yi zai Ha ju xing [The meeting of finance ministers and central bank governors of SCO member states was held in Kazakhstan].

<sup>2</sup> [https://www.gov.cn/gzdt/2009-12/10/content\\_1484096.htm](https://www.gov.cn/gzdt/2009-12/10/content_1484096.htm) (In Chinese) (Date of access: 05.02.2025).

<sup>2</sup> Astana Declaration of the Heads of State of SCO Member States [https://www.mfa.gov.cn/web/gjhdq\\_676201/gj\\_676203/yz\\_676205/1206\\_676500/1207\\_676512/201706/t20170609\\_7979119.shtml](https://www.mfa.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_676500/1207_676512/201706/t20170609_7979119.shtml) (In Chinese) (Date of access: 05.02.2025).



Table 1.

## SCO Finance Ministers and Central Bank Governors Meetings

Date	Location	Chairpersons	Main Agenda	Outcome
Dec 9, 2009	Almaty, Kazakhstan	Finance Minister & Central Bank Governor of Kazakhstan	Global financial crisis response; regional cooperation	Joint Statement issued
May 17, 2012	Beijing, China	Xie Xuren & Zhou Xiaochuan	Macroeconomic policies; local currency settlements; SCO Development Bank	Joint Statement issued
Sep 29, 2016	Bishkek, Kyrgyzstan	Kasymaliyev & Abdugulov	SCO financing mechanisms; post-crisis economic policies	Joint Statement issued
Sep 3, 2021	Video conference	Finance Minister & Central Bank Governor of Tajikistan	SCO financing security; post-pandemic economic situation	Discussed financing mechanisms and policy responses
Mar 3, 2023	Video conference	Finance Minister & Reserve Bank Governor of India	Sustainable, inclusive finance; digital finance; SCO Development Bank	Adopted Digital Financial Inclusion Report

Source: compiled by the authors.

financing trade, energy, power, infrastructure, communications, and agricultural projects, strengthening trade between China and other SCO member states (Guo, 2018).

The consortium maintains close coordination with the SCO Secretariat, member states' economic departments, the SCO Business Council, and financial institutions of observer and dialogue partner countries. It also seeks engagement with international financial organizations to support trade and development in the region.

While the consortium is a multilateral consultation and cooperation mechanism rather than a formal financial entity (Xu, 2014), the establishment of an SCO Development Bank and a special SCO Development Fund remains a key priority. These initiatives aim to provide effective project financing and support joint construction projects in advanced manufacturing, inclusive finance, modern logistics, industrial parks, medical services, and high-tech sectors, promoting sustainable regional development and enhanced economic cooperation.

## 2. SCO Development Fund

During the fourth SCO Economic and Trade Ministers' meeting in Dushanbe (October 2005), principles for establishing the SCO Development Fund to support economic cooperation projects were proposed. In January 2009, experts met at the SCO Secretariat in Beijing to discuss its establishment. At the 2013 SCO Summit in Bishkek, heads of state emphasized the Fund's importance and directed efforts to complete its creation. Later that year, at the 12th SCO Prime

Ministers' Meeting in Tashkent, the establishment of the SCO Development Fund and Development Bank was discussed. Experts in Tashkent drafted principles and project activity mechanisms, with a meeting record documenting significant progress.

At the 2014 SCO Heads of State Council in Dushanbe, leaders called for expanded financial cooperation and accelerated research on the Fund and Bank. During the 14th SCO Prime Ministers' Meeting in Zhengzhou (December 2015), they reiterated the importance of establishing these institutions to promote regional economic and trade cooperation, directing relevant authorities to study the issue at the third meeting of finance ministers and central bank governors, scheduled for 2016 in the Kyrgyz Republic<sup>1</sup>. The joint communiqué emphasized that continuing work on the SCO Development Bank and Fund was "very important for promoting regional economic, trade, and investment cooperation."

China has consistently supported the SCO Development Fund. At the 2008 Prime Ministers' Meeting, it committed to implementing the Fund, providing concessional loans, and potentially donating a start-up fund for large-scale projects (Zhao, 2010). In January 2014, during the Silk Road Economic Space—New Momentum for the SCO Interbank Consortium seminar in Sanya, China, the SCO Secretary-General and the China Development Bank President exchanged views on establishing the SCO Development Bank

<sup>1</sup> Joint Communiqué of the 14th Meeting of the Council of Heads of Government of SCO Member States, [https://english.www.gov.cn/news/international\\_exchanges/2015/12/15/content\\_281475254650472.htm](https://english.www.gov.cn/news/international_exchanges/2015/12/15/content_281475254650472.htm) (Date of access: 05.02.2025).

and Fund (Zhang, 2016). The 2018 Qingdao Summit Declaration proposed studying their establishment to strengthen financial cooperation and regional integration (Zhang, 2018). Subsequent declarations (Pradt, 2020), including the Bishkek Declaration (June 2019) and the 23rd Meeting of the Council of Heads of Government (October 2024), continued to call for consultations on establishing these institutions.

### 3. SCO Bank

The proposal to create the SCO Development Bank has been extensively discussed among member states (Muratshina, 2017), covering issues such as its charter, governance, and funding sources (Zhang, 2016)<sup>1</sup>. At the 2017 meeting of SCO finance ministers and central bank governors, the Joint Statement on the Establishment of the SCO Development Bank marked progress in preparatory work, although no consensus has yet been reached. So far, two models have been considered: creating a new SCO Development Bank from scratch<sup>2</sup> or expanding an existing institution, the Eurasian Development Bank (EDB)<sup>3</sup>.

#### *Eurasian Development Bank Model:*

The main advantage of using the EDB as a foundation is speed, as it can begin operations immediately based on an already existing framework (Roshan, 2024). Another benefit is that its current member states largely overlap with SCO countries, facilitating initial cooperation.

However, this model has several disadvantages. The EDB's funding is limited, with registered capital of only \$1.5 billion<sup>4</sup>, which is insufficient to meet the needs of SCO countries, given their combined population of 3.4 billion, GDP of

\$23.3 trillion, and external trade of \$6.8 trillion. The bank's equity structure is another challenge: Russia and Kazakhstan control 67 % and 33 % respectively, without accommodating other member states' interests. Adjusting this ratio could reduce the shares of founding members, leading to conflicts. Finally, the EDB lacks the financial scale and capital markets of China, limiting its ability to offer diverse financial products and support regional development.

#### *New SCO Development Bank Model:*

The creation of a new SCO Development Bank, which was first proposed by China in 2010, would allow for substantial funding tailored to member states' needs. China suggested contributing \$8 billion, with the remaining \$2 billion (Guo, 2018)<sup>5</sup> provided by other members. The equity ratio could follow internationally recognized principles, taking GDP into account, which would allow for consultations without conflict between existing and new members. Management would adhere to international standards, and China's experience in financial governance could strengthen the bank's role in multilateral economic cooperation, particularly in energy, resources, and infrastructure projects.

Establishing a new bank does, however, require time, raising concerns among Russia and other states about potential delays. Yet, examples like the BRICS Bank and AIIB show that international financial institutions can be created efficiently. Russia's apprehension regarding China's role in Central Asia could also be addressed through direct participation in project decision-making (Ozarnov, 2023) and enhanced communication, ensuring that Russian interests are considered.

Ultimately, the establishment of an SCO Development Bank is a reasonable proposal that addresses the practical needs of member states, particularly in times of global financial uncertainty. With new members such as India, Pakistan, Iran, and Belarus joining the SCO, there is a pressing need for infrastructure investment (Malyshev, 2024) and regional connectivity projects (Ren, 2017).

The SCO Development Bank and the Eurasian Development Bank can coexist and cooperate, providing diverse financing channels and mitigating risks during economic crises. China could also play a positive role in the EDB, ensuring that both institutions work together according to their founding principles (Xu, 2016). Strengthened

<sup>1</sup> The topic of the "SCO Bank" has been extensively discussed among member states: In late November 2010, Chinese Premier Wen Jiabao first proposed the establishment of the "SCO Development Bank" at the 9th SCO Prime Ministers' Meeting in Dushanbe. In September 2011, Kazakhstan's Prime Minister Massimov proposed the establishment of a reserve bank or fund among SCO countries. In 2012, the 12th SCO Prime Ministers' Meeting in Bishkek decided to "establish the SCO Development Bank and Development Fund."

<sup>2</sup> The Eurasian Development Bank was established in January 2006 to promote market economic development among member states and develop trade and cross-border investment activities. It currently has six member states, including Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan.

<sup>3</sup> Igor Finogenov, then Chairman of the Eurasian Development Bank, and Russian Finance Minister Anton Siluanov, among others, have repeatedly expressed the desire to expand the SCO Bank based on the existing Eurasian Development Bank.

<sup>4</sup> Евразийский Банк Развития и Межбанковское объединение ШОС подписали соглашение, <http://www.banki.ru/news/lenta/?id=629253>, (Date of access: 05.02.2025).

<sup>5</sup> China may invest \$8 bln for SCO development bank [http://www.china.org.cn/business/2010-12/02/content\\_21469614.htm](http://www.china.org.cn/business/2010-12/02/content_21469614.htm), (Date of access: 05.02.2025).

cooperation would enhance regional economic and financial integration (Panke et al., 2023), reflecting the idea that while a single flower does not make a spring, a hundred flowers in full bloom bring a spring to the garden.

#### **4. China-Eurasia Economic Cooperation Fund**

In November 2013, Premier Li Keqiang proposed the establishment of the China-Eurasia Economic Cooperation Fund (CEF) at the SCO Prime meeting in Tashkent<sup>1</sup>. The fund was officially launched by President Xi Jinping at the 14th SCO Summit of Heads of State in Dushanbe in September 2014. Its primary aim is to deepen economic cooperation within the SCO region, enhance China's economic engagement with Eurasian countries, and serve as a financial instrument for regional development.

The CEF was initiated by the Export-Import Bank of China and the Bank of China and operates under government guidance while maintaining commercial management, independent operations, and self-assumed risks. Policy guidance is provided by a steering committee led by the Ministry of Commerce, with participation from the Ministry of Foreign Affairs, the National Development and Reform Commission, the Ministry of Finance, the People's Bank of China, the China Banking Regulatory Commission, and the State Administration of Foreign Exchange. This committee offers strategic direction without interfering with day-to-day operations or investment decisions.

The initial fund size was USD 1 billion, with a target of USD 5 billion. Investments focus on SCO member states, observer states, and dialogue partners, with plans to expand to countries along the Silk Road Economic Belt. A portion of funds may also be allocated to domestic projects related to cooperation with these countries. Priority sectors include agricultural development, logistics, infrastructure, next-generation information technology, and manufacturing. The fund supports Chinese industries in entering Eurasian markets through equity investments in foreign companies and encourages investment using the Chinese yuan.

To facilitate regional collaboration, the CEF works with financial institutions in Eurasian countries to establish bilateral subfunds and support joint investments in regional projects. It also provides market-oriented support for Chinese enterprises investing in the Eurasian

region. In April 2015, the National Development and Reform Commission registered the "Implementation Plan for the China-Eurasia Economic Cooperation Fund," and in December 2015, the CEF held its first board meeting, marking the fund's operational launch.

The CEF promotes the construction of the Silk Road Economic Belt, investment cooperation with Eurasian countries, and regional development. In December 2015, witnessed by Chinese Premier Li Keqiang and Russian Prime Minister Dmitry Medvedev, the fund signed agreements with Russia's Vnesheconombank and Russian Direct Investment Fund, as well as a cooperation agreement with Huawei and Russia's I-Teco for the Moscow Data Centre project. China aims to strengthen SCO relations through institutions such as the CEF (Kanaev, 2021). Recently, the fund has expanded in scale and diversified its investments, though structural issues in energy investments and environmental risks remain areas of concern. Future efforts are expected to promote regional cooperation through technological empowerment, institutional innovation, and projects that focus on improving people's livelihoods.

#### **5. SCO International Capital Port Currency Exchange Alliance**

The SCO International Capital Port Currency Exchange Alliance, also known as the SCO International Capital Port Financial Supermarket, was inaugurated in Qingdao on August 8, 2024. The alliance reflects the spirit of the SCO Astana Summit and establishes the first currency listing and trading platform for SCO countries. By facilitating currency listing and cross-border financial cooperation, the alliance promotes currency convertibility, encourages the use of local currencies, such as the Chinese yuan in trade, explores local currency cross-border settlement mechanisms, increases local currency settlements, reduces cross-border settlement costs, promotes financial integration, enhances cross-border trade convenience, and strengthens economic exchanges among SCO countries.

The People's Bank of China has signed bilateral local currency swap agreements with member states, including Russia and Kazakhstan, to further promote local currency settlements. The China Development Bank has issued loans within the SCO Interbank Consortium framework and established a 30 billion yuan special loan to advance financial cooperation. Several financial cooperation platforms have been created under the SCO framework; while some operate effectively, others remain under discussion due to various factors. Differences in the

<sup>1</sup> China-Eurasian Economic Cooperation Fund (CEF) <http://www.china-eurasian-fund.com/> (Date of access: 05.02.2025).

economic development levels of member states and cautious attitudes toward sovereignty transfer have complicated coordination. For example, Uzbekistan and Kazakhstan prioritize agricultural cooperation and poverty reduction, while China and Russia emphasize strategic projects, making it challenging to unify funding priorities (Vakhrushin, 2025).

Additional challenges arise from the fluctuating attitudes of member states in balancing relations with the US, China, and Russia, which has slowed negotiations. The absence of a unified financial regulatory framework and risk-sharing mechanisms within the SCO further complicates cooperation. Although non-governmental institutions such as the SCO Interbank Consortium and SCO Business Council exist, their roles are limited to information exchange and they are unable to undertake large-scale financing projects. Strengthening mutual trust among member states is therefore essential. To enhance financial cooperation, the SCO framework should strengthen collaboration with regional multilateral financial institutions, including the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), in order to facilitate regional trade and investment.

## 6. Main Areas of SCO Financial Cooperation

Currently, financial cooperation within the SCO covers several areas (Miroshnychenko, 2019); however, we have chosen three key areas as our primary focus.

### 1) *Maintaining Regional Financial Security*

With economic globalization and deepening regional integration, financial security has become essential for national stability and regional development. Following the 2007–2009 global financial crisis originating in the United States, pragmatic financial cooperation within the SCO has prioritized maintaining regional financial security as a central agenda (Jiang, 2012).

First, ensuring regional financial security is fundamental for promoting economic stability and development. Only by safeguarding financial stability can a reliable environment be created for regional cooperation, attracting investment and fostering growth.

Second, regional financial security enhances mutual trust and cooperation among member states (Selda, 2014). By jointly addressing financial risks, states deepen their understanding of one another and build trust, laying a foundation for broader cooperation. This trust further encourages deeper financial collaboration, creating a virtuous cycle.

Third, through cooperation in financial security, the SCO has strengthened its role in global

financial governance, increasing its international influence. SCO's experience in regional financial security can serve as a reference for other regional organizations, enhancing its attractiveness as a multilateral platform.

In summary, the importance of regional financial security for the SCO encompasses economic stability, regional cooperation, and international influence. By strengthening financial regulatory cooperation, promoting local currency settlements, and building financial infrastructure, the SCO can enhance members' resilience to financial risks and contribute to regional integration and global financial governance, serving both regional development needs and the organization's strategic objectives.

### 2) *Anti-Money Laundering and Counter-Terrorist Financing*

With globalization, cross-border money laundering and terrorist financing have become increasingly pronounced, threatening international financial stability. Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT) are vital components of global financial regulation. Many SCO member states in Central Asia face threats from the "three evils" (terrorism, extremism, and separatism). By combating terrorist financing, the SCO helps weaken the economic foundations of illegal activities, maintaining regional security.

Most SCO members are emerging economies with relatively fragile financial systems, making them particularly vulnerable to money laundering and terrorist financing. Strengthening AML and CFT cooperation is therefore crucial for regional financial stability. SCO member states have signed several agreements to this effect, including the Shanghai Cooperation Organization Convention on Combating Terrorism and the Program of Cooperation among SCO Member States in Combating Terrorism, Separatism, and Extremism, providing a legal basis for AML and CFT initiatives.

To coordinate AML and CFT efforts, the SCO established the Regional Anti-Terrorist Structure (RATS) as the core body. RATS has enhanced cooperation through intelligence sharing, joint operations, and capacity building. In financial intelligence, member states have improved the exchange of suspicious transaction information through collaboration among Financial Intelligence Units (FIUs), increasing efficiency in combating illicit financial flows.

The SCO also conducts joint counterterrorism exercises and operations, such as the Peace Mission series, targeting terrorist activities and financing networks. Member states have dismantled



Table 2

## Currency Swap Agreements between China and SCO Member States

No.	Date	Country	Status	Amount of Capital	Current situation
1	May 10, 2015	Belarus	Current member state of the SCO	70 billion yuan renminbi (CNY) / 16 trillion Belarusian rubles (BYN)	Renewed multiple times
2	Apr. 19, 2011	Uzbekistan	Member state of the SCO	700 million yuan renminbi (CNY)	Renewed multiple times with an expanded scale.
3	Jun 13, 2011	Kazakhstan	Member state of the SCO	70 billion yuan renminbi (CNY) / 2000 billion tenge (KZT)	Extended multiple times
4	Dec. 23, 2011	Pakistan	Current full member of the SCO	300 billion yuan renminbi (CNY) / 11.8 trillion Pakistani rupees (PKR)	Renewed multiple times
5	Feb. 21, 2012	Turkey	Current dialogue Partner of the SCO	100 billion yuan renminbi (CNY) / 30 billion Turkish liras (TRY)	Renewed multiple times with an expanded scale.
6	Mar. 20, 2012	Mongolia	Current observer State of the SCO	150 billion yuan renminbi (CNY) / 7.25 trillion Mongolian tugriks (MNT)	Renewed multiple times
7	Sep. 16, 2014	Sri Lanka	Current dialogue Partner of the SCO	100 billion yuan renminbi (CNY) / 4100 billion Sri Lankan rupees (LKR)	Renewed multiple times
8	Oct. 13, 2014	Russia	Member state of the SCO	1500 billion yuan renminbi (CNY) / 8150 billion rubles (RUB)	Renewed multiple times
9	Mar. 25, 2015	Armenia	Current dialogue Partner of the SCO	10 billion yuan renminbi (CNY) / 77 billion Armenian drams (AMD)	Renewed multiple times

Source: compiled by the authors

terrorist financing networks, frozen terrorism-related bank accounts, and disrupted cross-border money laundering cases, achieving significant results in curbing illegal capital flows in Central Asia. SCO's accomplishments in institutional development, cooperation mechanisms, and capacity enhancement have laid a foundation for regional security and economic cooperation while contributing to global anti-terrorism efforts.

Future improvements could include establishing a unified risk assessment framework and information-sharing platform, enhancing technical assistance to member states, and strengthening collaboration with international organizations to address cross-border money laundering more effectively.

### 3) Local Currency Settlements

Cooperation in local currency settlements among SCO member states promotes regional economic integration and reduces dependence on third-party currencies (Xu, 2018). The People's Bank of China has signed bilateral local currency swap agreements with several SCO countries. In August 2024, China concluded bilateral local currency

settlement agreements with Russia, Kyrgyzstan, and Kazakhstan. Local currency settlement operations were first launched in Sino-Russian trade in August 2002, and by 2009, the volume of such settlements had increased sixty-sevenfold.

China has also initiated direct or listed trading of some national currencies, such as the Kazakh tenge. This development has facilitated trade and investment cooperation between China and neighbouring countries and regions, demonstrating the practical benefits of local currency settlement in promoting regional financial integration.

By the end of August 2024, China had signed bilateral local currency swap agreements with 42 countries and regions, 29 of which remain in effect. The SCO region has emerged as a key area for China's local currency swap cooperation, with agreements totalling over 4.1 trillion yuan globally. Since Iran joined the SCO in 2023, China and Iran have actively promoted local currency settlement cooperation. Although China and Kyrgyzstan have not signed formal swap agreements, they have piloted local currency use in border trade.

In parallel, Russia has strengthened local currency settlements in recent years alongside its economic recovery (Xu, 2023). Following the 2014 Crimea incident, Russia signed local currency settlement agreements with several countries (Jiang, 2016). After the 2022 Russia–Ukraine conflict, US and European sanctions, including restrictions on using the dollar and euro and exclusion from SWIFT, further accelerated Russia's efforts. Consequently, local currency settlements with SCO members such as Iran and India have become a hallmark of the SCO's internal financial strengthening (see Table 3).

Russia has developed local currency settlement mechanisms with several SCO member states, achieving significant progress in energy, agriculture, and the defence industry. By 2024, local currency settlements with EAEU member states averaged over 30 %, reducing dependence on the US dollar and enhancing financial stability. Looking ahead, Russia plans to expand the scope of these settlements and explore digital currency cooperation to adapt to global economic changes (Malyshev, 2024).

Similarly, Central Asian countries have actively pursued local currency settlement

cooperation among themselves (see Table 4 below for the case of Kazakhstan). Their efforts aim to reduce external dependencies, improve trade efficiency, respond to regional strategic needs, and strengthen financial autonomy, contributing to deeper regional economic integration.

Central Asian SCO member states have made notable progress in promoting local currency settlements through regional economic integration (Yan, 2021). Kazakhstan and Kyrgyzstan, in particular, have actively advanced such settlements under the Eurasian Economic Union (EAEU) framework. By 2024, local currency settlements in the region reached 30 %, especially in border trade, energy, and agriculture.

With ongoing technical cooperation and deeper regional integration, local currency settlements are expected to expand further in Central Asia, becoming a key pillar of regional financial cooperation. Efforts should continue to promote their use in bilateral trade and extend into general trade and non-trade areas. Accelerating settlement infrastructure and developing a multilateral settlement system under the SCO framework will be essential when conditions allow.

Table 3

#### Local Currency Settlement Cooperation between Russia and SCO Member States

No.	Year	Country	Status	Amount of Capital	Current situation
1	2015	Kazakhstan	Member state of the SCO	The specific amount has not been disclosed.	A 2015 agreement promoted ruble-tenge trade settlements; by 2024, over 40 % of energy exports and cross-border trade used these currencies.
2	2017	Uzbekistan	Member state of the SCO	The specific amount has not been disclosed.	Local currency settlements in labour remittances and energy transactions rose to 20 % by 2025.
3	2022	India	Current member state of the SCO	The specific amount has not been disclosed.	The ruble-rupee mechanism, launched in 2022, covers bilateral trade; by 2025, 15 % of Russia-India energy trade was settled in rubles and rupees..
4	2022	Iran	Current member state of the SCO	The specific amount has not been disclosed.	A 2022 agreement ensures energy trade is fully settled in rubles and Iranian rials, with plans to expand to industrial goods.

Source: compiled by the authors

Table 4

#### Local Currency Settlement Cooperation in Central Asia: A Case Study of Kazakhstan

No.	Year	Country	Status	Amount of capital	Current situation
1	2017	Uzbekistan	Member state of the SCO	The specific amount has not been disclosed.	In 2024, over 50 % of border trade—mainly in agriculture and energy—used local currencies.
2	2018	Kyrgyzstan	Member state of the SCO	The specific amount has not been disclosed.	In 2025, local currency settlements will expand to cross-border remittances, SMEs, and the transport and logistics sector.

Source: compiled by the authors

SCO members should expand currency swap scales and sign additional bilateral local currency swap agreements with greater size and duration to strengthen cooperation. Establishing mechanisms for multilateral currency listings, mutual lending, and currency swaps can create a multi-tiered monetary cooperation system, facilitating regional trade and investment.

Recent achievements demonstrate that promoting local currency settlements reflects pragmatic financial cooperation among SCO members. Bilateral currency swap agreements have reduced dependence on third-party currencies and enhanced regional financial autonomy. With advancing technical cooperation and the accession of new members, local currency settlements are likely to expand into more areas, playing an increasingly important role in global economic governance reform.

### Findings and Concluding Remarks

The SCO financial-cooperation mechanism has matured, moving beyond symbolic initiatives to an efficiency-driven stage. The following results relate to the study's three core hypotheses:

#### 1. Mechanism Effectiveness (H1)

Completeness of the mechanism is strongly and positively correlated with financing completion rates. Institutional variables, particularly local-currency swap agreements and the joint rating framework, contribute most significantly, supporting Hypothesis 1.

#### 2. Funding Efficiency (H2)

Projects settled in local currency achieve higher efficiency than those in USD, especially in certain sectors, providing evidence for Hypothesis 2.

#### 3. Spillover Effect (H3)

SCO financial projects introduce capital, payment systems, risk-control mechanisms, and credit-data platforms, reducing financing costs and information barriers for surrounding firms, validating Hypothesis 3.

Overall, the study demonstrates that SCO financial cooperation has not only eased member states' funding constraints but also fostered a sustainable regional financial ecosystem through institutional innovation and enhanced funding efficiency.

Most SCO member states are developing countries with varying development levels. Their financial infrastructure is underdeveloped, financial products are limited, and critical financial resources are often scarce. Since the SCO's establishment, a dual-layer cooperation mechanism and multiple financial cooperation platforms have been developed, providing a foundation for regional financial collaboration.

SCO financial cooperation operates along three main directions: activating existing resources, leveraging new increments, and ensuring funds reach areas of greatest need. By following this approach, SCO financial cooperation has contributed to regional development.

In 2025, China will serve as rotating chair with the theme of "Sustainable Development," emphasizing financial cooperation as a key tool to implement the SCO Economic Development Strategy up to 2030. Guided by the "Shanghai Spirit," members pursue a dual-driven approach combining security and economic cooperation, creating a new model of regional collaboration and a shared future community. Financial cooperation will continue to provide momentum and vitality for member states' development within the SCO.

### References

- Alimov, R. (2018). The Shanghai Cooperation Organisation: Its role and place in the development of Eurasia. *Journal of Eurasian studies*, 9(2), 114–124.
- Atik, S. (2014). Regional economic integrations in the post-Soviet Eurasia: An analysis on causes of inefficiency. *Procedia-Social and Behavioral Sciences*, 109, 1326–1335.
- Guo, Y. (2018). Shanghe zuzhi yinlianti lishihui di 14 ci huiyi zaijing zhaokai guokaihang leiji xiang shanghe chengyuanguo fangfang daikuan chao qianyi meiyuan [The 14th meeting of the SCO Union Body Council was held in Beijing. CDB reports over 100 billion USD Loans to SCO countries]. *Zhongguo jinrong jia [China Financialyst]*, (6), 22–23. <https://doi.org/10.19294/j.cnki.cn11-4799/f.2018.06.006> (In Chinese)
- Humayun, R. T. (2024). *Russian-Chinese political economic interests in the Shanghai Cooperation Organization (SCO): Challenges and Future Prospects*. Chişinău: Eliva Press, 174.
- Jiang, R. (2012). Shanghai hezuo zuzhi chengyuanguo jinrong hezuo: xinjinzhan yu qianjing zhanwang [Financial Cooperation Among Member States of SCO: Progress and Prospects]. *Shanghai jinrong [Shanghai Finance]*, (8). (In Chinese)
- Jiang, R. (2016). Shanghai hezuo zuzhi de jinrong hezuo (2014–2015): jinzhan, wenti yu lujing shexiang [Financial cooperation of the Shanghai Cooperation Organization (2014–2015): Progress, problems, and path ideas]. *Eluosi dongou zhongya yanjiu [Russian East European & Central Asian Studies]*, (3), 76–93. (In Chinese)
- Kanaev, E. A., & Vaseneva, E. A. (2021). Business cooperation between ASEAN and SCO: The institutional dimension. *Yugo-Vostochnaya Aziya: aktual'nyye problemy razvitiya*, 2(2(51)), 79–91. <https://doi.org/10.31696/2072-8271-2021-2-2-51-079-091>

- Malle, S. (2017). Russia and China in the 21st century. Moving towards cooperative behaviour. *Journal of Eurasian Studies*, 8(2), 136–150. <https://doi.org/10.1016/j.euras.2017.02.003>
- Malyshev, D. V. (2024). SCO and BRICS in an emerging multipolar world order. *Lomonosov World Politics Journal*, 16(2), 9–31. <https://doi.org/10.48015/2076-7404-2024-16-2-9-31>
- Malyshev, D., Kurylev, K., Smolik, N., & Stanis, D. (2024). India's Cooperation with the EAEU and the SCO. *Mirovaya ekonomika i mezhdunarodnye otnosheniya [World Economy and International Relations]*, 68(11), 115–124. <https://doi.org/10.20542/0131-2227-2024-68-11-115-124> (In Russ.)
- Miroshnychenko, M. T. (2019). The directions of integration activities of the SCO countries. *Business Inform*, 3(494), 32–36. <https://doi.org/10.32983/2222-4459-2019-3-32-36>
- Muratshina, K. (2017). On the Question of SCO Bank Institutionalisation. *Administrative Consulting*, 44–54. <https://doi.org/10.22394/1726-1139-2017-7-44-54>
- Ozarnov, R. (2023). Analyzing the financial and banking cooperation among Russia and the SCO member states. *Nota Bene*, (1), 28–40. <https://doi.org/10.7256/2454-0668.2023.1.38940>
- Panke, D., & Stapel, S. (2023). Cooperation between international organizations: Demand, supply, and restraint. *The Review of International Organizations*, 19(2), 269–305. <https://doi.org/10.1007/s11558-023-09506-3>
- Pradt, T. (2020). Economic cooperation among SCO members. In *The Prequel to China's New Silk Road: Preparing the Ground in Central Asia* (pp. 71–85). Singapore: Springer Singapore.
- Ren, F. (2017). Shanghai hezuo zuzhi kuoyuanhou de jinrong hezuo [Financial cooperation of the Shanghai Cooperation Organization after expansion]. *Ouya jingji [Eurasian Economics]*, (5), 56–60. (In Chinese)
- Vakhrushin, I. V., & Nikolaev, N. A. (2024). Risks of Institutionalization of the Central Asia–China Format for Solidarity and Political Trust in the Shanghai Cooperation Organization. *Herald of the Russian Academy of Sciences*, 94(5), 225–234. <https://doi.org/10.1134/S1019331625600106>
- Wenhong, N. X. (2023). Dedollarization as a direction of Russia's financial policy in current conditions. *Studies on Russian Economic Development*, 34(1), 9–18. <https://doi.org/10.1134/s1075700723010185>
- Xu, W. H. (2014). Shanghai hezuo zuzhi ying chengwei renlei mingyun gongtongti he liyigongtongti [The Shanghai Cooperation Organization should become a community of shared interests and a community of shared future for mankind]. *Shanghai hezuo zuzhi fazhan baogao [Development Report of the Shanghai Cooperation Organization]*. Beijing: Shehui kexue chubanshe [Beijing: Social Sciences Academic Press]. (In Chinese)
- Xu, W. H. (2016). *Wajue liuda pingtai qianli, tuidong shanghai hezuo zuzhi chengyuanguo jinronghezuo [Tapping the potential of six major platforms to promote financial cooperation in the SCO. At the Belt and Road Initiative and Central Asia International Forum]*. Beijing: Shishi chubanshe [Beijing: Current Affairs Publishing House]. (In Chinese)
- Xu, W. H. (2018). Kuoda jinrong hezuo Wei shanghe fazhan tigong xindongneng [Expanding financial cooperation to provide new impetus for the development of the SCO]. *Zhongguo baodao [China Report]*, (6), 36–39. (In Chinese)
- Yan, D. X. (2021). Economic Cooperation in the Shanghai Cooperation Organization: Achievements, Insights, and Prospects. *International Studies*, (3).
- Zhang, H. L. (2016). Shanghai hezuo zuzhi jinrong yitihua de qianzai fuli shouyi yanjiu [A study on the potential welfare gains of financial integration in the Shanghai Cooperation Organization]. *Shijie jingji yanjiu [World Economic Studies]*, (8), 79–86. (In Chinese)
- Zhang, H. L. (2018). “Yi dai yi lu” changyi yu shanghai hezuo zuzhi de fazhan [The Belt and Road Initiative and the Shanghai Cooperation Organization in expansion]. Shanghai: Shishi chubanshe [Shanghai: Current Affairs Publishing House]. (In Chinese)
- Zhao, M. W. (2010). Shanghai hezuo zuzhi zai jinrong weiji zhong qianxing [The Shanghai Cooperation Organization moves forward in the financial crisis]. *Guoji wenti yanjiu [Journal of International Issues]*, (2), 50–55. (In Chinese)

### About the author

**Wenhong Xu** — Dr. Sci. (Law), Associate Professor, Senior Research Associate, Institute of Russian, Eastern European and Central Asian Studies, Chinese Academy of Social Sciences; <https://orcid.org/0000-0003-3845-8335> (3, Zhang Zi Zhong Road, DongCheng District, Beijing, 100007, People's Republic of China; e-mail:whxu@cass.org.cn).

### Информация об авторе

**Сюй Вэньхун** — доктор юридических наук, доцент, старший научный сотрудник, Институт России, Восточной Европы и Центральной Азии Китайской академии общественных наук; <https://orcid.org/0000-0003-3845-8335> (Китайская Народная Республика, 100007, г. Пекин, пр-т. Чжан Цзычжун, 3; e-mail:whxu@cass.org.cn).

### Использование средств ИИ

Автор заявляет о том, что при написании этой статьи не применялись средства генеративного искусственного интеллекта.

### Use of AI tools declaration

The author declares that he has not used Artificial Intelligence (AI) tools for the creation of this article.



### **Конфликт интересов**

Автор заявляет об отсутствии конфликта интересов.

### **Conflict of interests**

The author declares no conflicts of interest.

Дата поступления рукописи: 20.02.2025.

Прошла рецензирование: 27.05.2025.

Принято решение о публикации: 27.06.2025.

Received: 20 Feb 2025.

Reviewed: 27 May 2025.

Accepted: 27 Jun 2025.