

# **Pakistan's economic opportunities in the SCO**

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Uzma Zia | 23<sup>rd</sup> Oct, 2024



**Being part of a regional organization greatly benefits countries by improving their global trade position while ensuring sustainable economic development.**

As Pakistan tries to be a part of regional integration, its membership in the Shanghai Cooperation Organization (SCO) presents a good opportunity to unlock economic benefits.

Established in 2001 with an initial focus on political and security cooperation, the SCO has expanded its attention towards trade and

economic integration. This shift offers Pakistan a valuable platform to explore trade avenues, attract investments, integrate financially, and improve economic growth.

This regional intergovernmental organization is expected to provide Pakistan access to larger markets, increasing export opportunities and economies of scale. The country is expected to attract more foreign investment and a more stable standing in global trade negotiations. Reduced tariffs and streamlined customs procedures are expected to lower trade costs, and boost competitiveness.

The SCO will definitely encourage employment opportunities, and services diversification while promoting technology transfer and innovation.

Stronger economic ties contribute to stability, and regulatory harmonization simplifies cross-border business which is direly needed. Overall, regional cooperation brings development and resilience in member countries while the same is expected in the case of Pakistan.

To achieve promising results, Pakistan must adopt a favorable strategic approach to fully capitalize on the economic potential offered by the SCO.

One of the main benefits of the SCO for Pakistan is the opportunity to access larger markets in the economies of SCO member states (China, Russia, India, and the Central Asian republics). This diversification of export markets can assist Pakistan reduce its dependence only on existing trading partners. Sectors like textiles, agriculture, and sports goods hold strong potential for export to Central Asia and Russia.

While more opportunities can also be hunted. Deepening trade ties with these countries will not only boost Pakistan's export volumes but also

encourage local industries to improve their quality, and productivity and look towards export opportunities.

The SCO offers Pakistan some substantial opportunities for export-driven growth by reducing trade barriers and facilitating cross-border trade, benefiting small and medium-sized enterprises. Initiatives like China's Belt and Road Initiative (BRI) and investments through the China-Pakistan Economic Corridor (CPEC) enhance infrastructure, lower transportation costs, and boost economic cooperation.

Pakistan can adopt technology transfer, joint ventures, and energy imports from Central Asian states to address its energy shortages and modernize industries. By encouraging investment-infrastructure development, Pakistan can strengthen its geopolitical position, and ensure long-term economic growth.

The financial integration of Pakistan with SCO countries is on a medium level and pinpoints several important aspects. Pakistan's participation in the SCO Interbank Consortium supports investment and financial services for trade, with HBL Pakistan as a key member of the consortium.

Financial institutions like HBL, and EXIM Bank may offer banking services to both domestic and international traders. Efforts to reduce reliance on the US dollar are in progress, particularly through a shift to national currencies.

However, the current financial mechanisms within the SCO countries are weak, with issues such as insufficient information, lack of proper financial integration, and heavy reliance on the China Development Bank for financial resources. Informal channels, like Hawala and Hundi, still operate widely.

Despite these challenges, there is significant potential for attracting foreign direct investment (FDI) and promoting economic prosperity.

Investments, particularly under China's roughly US\$55 billion plan in 2017 for infrastructure and energy in Pakistan, were expected to boost economic growth and enhance trade relationships, contributing to regional stability.

Presently, two SCO countries are investing in Pakistan. China is leading through CPEC projects in energy and infrastructure investment, and Pakistan is the third biggest recipient of Chinese development finance worldwide with a portfolio of \$70.3 billion.

Russia is also investing in Pakistan's energy sector, including a nearly \$2.5 billion natural gas pipeline and a roughly \$14 billion package for oil, gas, and power projects. These investments are vital for Pakistan's infrastructure and energy development.

***Pakistan's involvement in the SCO opens a way of availing significant opportunities for economic development. By expanding market access, lowering trade barriers, attracting investments, and strengthening financial integration, Pakistan can secure long-term benefits that enhance its global competitiveness. A proactive approach with risk mitigation strategies is recommended for Pakistan to increase its in-house productivity, improve quality, and raise exports. Overall, the SCO has the potential to have a significant positive impact on Pakistan's economy. By increasing trade, investment, energy cooperation, and security, the SCO can help Pakistan achieve regional integration and economic development. However, the full potential of the SCO will depend on the willingness of member countries to cooperate and implement the joint necessary workable policies.***

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