



ECO Secretariat Staff Papers

Regional Integration in ECO: an overview

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Regional Integration in ECO: an overview

Over past few decades, regional economic integration has gained tremendous momentum and bilateral and plurilateral trading arrangements have emerged as arguably the most powerful factor on the international trade scenario. Countries across the globe are entering into such arrangements with regional partners as the most logical choice.

Enhanced regional trade and investment cooperation leading to economic integration of the member countries also lies at the heart of the Economic Cooperation Organization (ECO). Reference may be made to the Treaty of Izmir, the founding document of ECO, which commits the Member countries to take "measures towards progressive removal of trade barriers within ECO region and expansion of intra and inter-regional trade." Since regional and multilateral integration go hand in hand, ECO attaches high importance to the integration of the Members into the global economy. One of the objectives of the organization as outlined in the Treaty of Izmir is "To provide for gradual and smooth integration of the economies of the Member States with the World Economy to ensure their fuller participation in the globalization process."

The ECO region has a significant potential to become more integrated through greater intra-regional trade and investment flows. ECO countries can provide easier access to each others' markets because of geographical proximity, and shared economic, social and cultural characteristics.

However, ECO lags behind most other regions in terms of trade and economic integration. Not only that, the global trade and investment inflows into the region are well below the desired level and potential. In this write-up, an attempt has been made to (a) glance at the major trade and investment related indicators of ECO countries; (b) outline the ECO initiatives and programmes to promote regional trade and investment cooperation; and (c) to make suggestions to deepen the process of regional trade cooperation and integration as well upgrade the trade profile of the region.

The cumulative world trade of the 10 ECO countries reached US\$ 827 billion in 2013. This included exports of US\$ 371 billion and imports of US\$ 456 billion. ECO accounts for 2.2 percent of global exports, which, needless

to emphasize, is well below the potential. For last several years, ECO's share in global exports has stuck between 2 and 3 percent. Within ECO, the top exporter is Turkey, which accounts for nearly 49 percent of the total exports of the region. The other major exporters are Kazakhstan, Iran, Pakistan, and Azerbaijan. Taken together these four countries make up 94 percent of ECO's total exports.

ECO's global trade between 2008 and 2013 is given in Table-I.

Table I: ECO global trade

Value in Billion US\$

Year	ECO global imports	ECO global exports	Total Trade
2008	404	319	723
2009	266	234	500
2010	333	310	643
2011	431	423	854
2012	422	396	818
2013	456	371	827

Source: Comtrade data

It may be useful to look at ECO's export portfolio. The region is endowed with a tremendous wealth of energy resources. Therefore, not surprisingly, mineral fuels have the lion's share (over 44 percent) in the region's total exports. In all, ECO is principally an exporter of primary products and labour intensive manufactures, such as textiles and clothing. The share of high value-added, middle-to-high technology content products in the export basket is rather low. For instance, the share of machinery and mechanical appliances, and electrical equipment in total ECO exports is as low as 3.3 percent and 2.5 percent respectively.

One of the indicators to assess the performance of a regional economic organization is to look at the share of intra-region trade in world

trade of the region. On this indicator as well, ECO needs a lot of improvement. The share of intra-ECO trade in total trade of the members is about 10 percent only.

Table II: Intra-ECO Trade: Percentage share in region's world trade

Year	Share in global exports of Members (%)
2010	7.7
2011	7.1
2012	11.1
2013	9.8

Source: Comtrade data

ECO has undertaken various initiatives to further the cause of trade cooperation and integration in the region. These include putting in place the necessary legal and institutional framework, project and programmes to overcome supply-side constraints and raise export competitiveness and studies to point out the right policy measures. These initiatives can be briefly explained under the following four heads:

a. Trade Liberalization:

ECO is fully alive to the need to substantially reduce tariff and non-tariff barriers (NTBs) to trade in the region. ECO Trade Agreement (ECOTA), a preferential trading arrangement concluded in 2003, is the flagship trading arrangement of ECO. Signed by five out of 10 Members of ECO, namely Afghanistan, Iran, Pakistan, Turkey, and Tajikistan, ECOTA provides for reducing tariffs in the region to a maximum of 15 percent over eight years on 80 percent of the traded goods. In addition, the Agreement covers NTBs, trade defense measures, and dispute settlement. The implementation of ECOTA will pave the way for the members to enter into a free trade agreement (FTA). According to the 2011 ECO-PIDE Study on

Trading Patterns in the ECO Region, trade in ECO can increase by a factor of eight in case of an FTA among the Member States.

In addition, ECO is running a trade capacity building programme in the area of standardization and quality in collaboration with UNIDO, which constitutes an important step towards enhancing export competitiveness of Member States and elimination of NTBs.

Since bilateral and multilateral trade liberalization go hand in hand, ECO is also supporting the accession of its members to WTO through seminars. The accession to the WTO is important, because at present only four members of ECO are also members of the WTO.

b. Trade Facilitation & Promotion

Trade facilitation compliments trade liberalization by reducing the cost of doing business. ECO has two agreements for cooperation among the Members in customs matters, while preparation of a comprehensive ECO Trade Facilitation Agreement in pursuance of the decisions of the 4th Ministerial Meeting on Commerce and Foreign is in progress. Building/up-gradation of rail and road network in the region is also underway.

ECO also attaches high importance to collaboration among Members in trade promotion particularly with regard to dissemination of commercial intelligence and projecting the enormous trade potential of the region. The forum of ECO Heads of Trade Promotion Organizations (TPOs) has been set up to oversee trade promotion cooperation. An agreement on promoting cooperation among TPOs of Members is being drawn up.

c. Private sector cooperation

All over the world private sector has emerged as the main engine of growth and trade promotion. Strengthening private sector cooperation is an important element of efforts for promoting regional trade. ECO Chamber of Commerce and Industry has been encouraging cooperation among privates sectors of Member States. The ECO Business Forum has been institutionalized as a mechanism for shoring up cooperation and

strengthening interaction among the private sectors of the Member States. These forums provide a useful platform for the private sector representative bodies to explore avenues of expansion in regional trade and strengthen multilateral cooperation.

d. Trade Finance

ECO is always looking out for ways and means to provide sufficient finance to support its programmes and activities. In this regard the Organization seeks to avail itself of both internal and external resources. To its credit, the ECO has set up ECO Trade and Development Bank (ECOTDB) to serve as a principal source of trade finance in the region. Based in Istanbul, ECOTDB aims at mobilizing resources for expanding intra-regional trade and accelerating economic development of the Member Countries. At present five out of 10 Member States are Members of the bank. Over last couple of years, the membership of the bank is on the increase.

In addition, ECO has a good record of collaboration with notable international organizations and institutions in trade project financing.

Notwithstanding the aforementioned initiatives, a lot of ground needs to be covered for a significant increase in intra-region and global trade of the Members. Here are a few suggestions. One, ECO countries need to implement the principal agreed instrument of regional integration, namely ECOTA. ECO is arguably the only region where Members do not grant preferential market access to exports from one another.

Two, ECO is largely an exporter of primary products and low-technology content labour intensive manufactures. ECO countries need to move towards export of high value added, medium-to-high technology content exports. Not only that, ECO countries by and large depend on a handful of products for their export earnings. They need to broaden their export profile by upgrading and diversifying their industrial structure. A country's export profile and performance largely reflects its supply-side constraints, so the same need to be removed.

Finally, as in the case of various other regional blocs, the ECO countries can establish regional production networks whereby different stages in the manufacturing of a product can be carried out in different countries as per their comparative advantage. This will not only promote intra-region trade but also drive up global trade of member countries. Products relating to auto and textiles industry may be considered for this vertical integration.