

The 1st Ministerial Meeting on Trade & Commerce
Statements of Secretary General on ECO Trade Cooperation
(Tehran, 4-6 March, 2000)

Annex-IV

by: **H.E. AMBASSADOR ÖNDER ÖZAR,**

*H.E. Mr. Shariatmadari,
The Honourable Minister of Commerce of the Islamic Republic of Iran,
Honourable Ministers & Deputy Ministers,
Excellencies, Distinguished Delegates,
Ladies and Gentlemen,*

It is a great honour and privilege for me to address the inaugural session of the ECO First Ministerial Meeting on Trade (Commerce), being held here in Tehran. At the outset, I would like to avail myself of this opportunity to extend a warm welcome to the Honourable Ministers, Deputy Ministers and respectful delegates from the ECO Member States, who kindly dedicated some of their valuable time to participate in this important Meeting. I wish you all a very pleasant stay in Tehran. I would also like to express our sincere gratitude to H.E. Mr. Shariatmadari, the Minister of Commerce of the Islamic Republic of Iran for hosting this important Meeting in Tehran with excellent arrangement and traditional hospitality.

As we have just entered the third Millennium, the First ECO Ministerial Meeting on Trade will be an important regional forum that could provide powerful momentum for moving the trade cooperation in the ECO region, forward.

*Honourable Ministers,
Distinguished Participants,*

As the world economy is witnessing the process of globalization and entering a new phase, what is now typically referred to as new information-based economy, most of the developing countries are pursuing market-oriented growth strategies on the one hand, and establishing intensive economic cooperation among themselves as one of the means to increase their capacity to produce, achieve economies of scale and become internationally competitive on the other.

Being aware of this evolution ECO as a regional grouping expanded from three to ten member countries in 1992, is intensifying its endeavours to take advantage of new opportunities for increasing trade, investment and production. To this effect, the Treaty of Izmir, basic charter of ECO, stipulates that one of the main objectives of ECO is to take measures towards progressive removal of trade barriers within ECO region and expansion of intra and inter-regional trade, keeping in view experiences in other regions and global economic trends.

To realize this objective, a set of projects/programmes have been embarked on in the past five years which can be categorized into three groups:

- trade-liberalizing activities;
- trade facilitation projects; and
- Other trade cooperation areas.

To promote trade cooperation among ECO Member States, we have been following a two-track approach. The first track relates to those activities which aim to develop a regional framework of trade cooperation in various fields such as tariff and non-tariff liberalization, customs, transit trade, cooperation among trade promotion organizations, etc.

The second feature pertains to “bottom-up” activities which attempt to identify business opportunities in specific product groups then promote trade transactions in the region. This latter feature is a rather a new initiative in the trade sector being undertaken jointly by ECO and International Trade Center (ITC) Secretariats.

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Now, before reporting on the progress with regard to these activities, let me say that the intra-trade in the ECO region is far from being satisfactory. Only 4 billion out of 60 billion US\$ worth of trade takes place among the Member Countries. Whereas, according to the newly released study done by the International Trade Centre, the indicative trade potential for the ECO region was estimated to be approximately 16 billion US\$, four times of the actual one. I will deal with this important issue later, during my statement.

Now, let me take up ECO activities in trade liberalization and other issues related to trade cooperation. Removal of Tariffs and Non-Tariff Barriers in the region is the main thrust of the work in the field of trade liberalizing activities. In this regard, a High-Level Expert Group (HLEG) has been established and held two Meetings. The group succeeded to prepare a draft framework agreement on ECO trade cooperation, which will be deliberated by this august body. By this agreement, what we aim to do is to prepare a road map to formalize and strengthen ECO trade cooperation, which would eventually, result in removal of all trade barriers among the Member Countries.

The second group of projects and programmes pertains to the trade facilitation activities covering areas such as transit trade, customs, and trade networking system. The aim is the simplification of procedures for all regional transactions, capacity building in the area of customs such as transit trade, control procedures and provisions of training to customs staff of Member States, and creating an environment that is conducive to effective regional cooperation in trade sector.

To facilitate transit trade among the Member States, the ECO Transit Trade Agreement signed in 1995 has entered into force since December 1997 upon the ratification of the Agreement by seven Member Countries (i.e. Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey and Turkmenistan). For operationalization of the Agreement, also a number of steps have been taken. These include the adoption of the ECO Passage

Document, which will be recognized by customs authorities of the Member Countries for transit cargo movement. I would like to thank and appreciate the cooperation of the ECO Chamber of Commerce and Industry in this regard. To monitor the progress and to resolve any dispute, which may arise out of the implementation of the Agreement, the ECO Transit Trade Committee was formed and since late 1997 has been meeting to prepare the necessary ground for the operationalization of the agreement.

Trade and Investment Information Networking in the ECO region is another trade facilitation project. Establishment of networking system to facilitate the exchange of information on trade and investment opportunities is expected to promote an enabling environment for expansion of trade in ECO region. To this end, the first Seminar on Trade and Investment Information Networking in ECO region was held with cooperation of ESCAP and IDB on 7-9 February 1999 in Tehran. As a continuation of the first one, the second seminar will be held in Antalya (Turkey), in October 2000.

The aim of these endeavors is two fold: the first is to establish a network among trade promotion organizations of the Member Countries, which will allow the business communities to search for business opportunities in the Member Countries; secondly to improve trade promotion activities through sharing information and knowledge of trade development activities and techniques of the Member Countries.

To facilitate the travel of the businessmen in the ECO region, an agreement on Simplification of Visa Procedures was signed by seven Member Countries, namely; the Islamic States of Afghanistan, the Republic of Azerbaijan, the Islamic Republic of Iran, the Republic of Kazakhstan, the Islamic Republic of Pakistan, the Republic of Turkey and Turkmenistan in March, 1995 in 3rd ECO Summit Meeting, in Islamabad. The Agreement entered into force in March, 1998 and accordingly, the Embassies and Consulates General of signatory Member Countries have been authorized to issue multiple entry visas for businessmen of the ECO Member Countries in accordance with the Agreement.

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Another important project with regard to ECO trade cooperation is ECO Trade and Development Bank and ECO Reinsurance Company, whose agreements were signed by Iran, Pakistan and Turkey in March, 1995 during the 3rd Summit Meeting held in Islamabad. The purpose of the establishment of this Bank is to initiate and provide financial facilities to expand intra-regional trade and to contribute to the implementation of the economic development projects of the Member Countries. So far, Pakistan and Turkey have ratified the Agreement of the Bank and Iran is expected to do the same, soon. The signatory Member Countries agreed in the 10th Regional Planning Council Meeting, held last month in Tehran, to hold an interim committee meeting to prepare the ground for the establishment of the Bank.

To help the establishment of a closer relation between business communities of the Member Countries, the ECO Chamber of Commerce and Industry was established in 1993. Since then, the ECO Chamber has been contributing, as much as possible, to the trade promotion efforts in the region. Among the major achievements in this respect was:- the establishment of a Joint Transit Committee for providing necessary inputs on transit issues to be considered by the concerned ECO customs officials; establishment of Investment and Industry Committee to exchange information on investment opportunities in order to promote flow of investment within the region and; holding of 3rd ECO Trade Fair in Bandar Anzali in 1998 with financial assistance of IDB. Next ECO Trade Fair will be held in Karachi from 20 to 25 April, 2000.

The challenge before the ECO Chamber is two-fold. Firstly, the Chamber needs to reconsider its present work modality and introduce more practical and business oriented programmes. Secondly, private sector capacity of Azerbaijan and Central Asian Member Countries are limited and are in the early stages of capacity building, compared to that of Iran, Pakistan and Turkey. In this respect, I appeal to the relevant authorities of the Islamic Republic of Iran, Islamic Republic of Pakistan and Republic of Turkey to kindly provide technical and financial assistance to the National Chambers of new Member Countries in their endeavor to develop trade promotion skills, as well as institutional building.

With regard to the ECO cooperation in customs, Heads of Customs Administrations (HCA) of ECO Member States have been holding annual meetings since 1994 and the 7th Meeting is scheduled to convene in late June, 2000 in Baku (Azerbaijan).

Among the major achievements of the Heads of ECO Customs Administrations Meetings, I may quote the following:

- measures taken for implementation of ECO Transit Trade Agreement;
- adoption of MOU on Cooperation against Smuggling and Customs Frauds, signed during the 8th Meeting of the Council of Ministers in Almaty in 1998;
- organizing training activities for customs officials of Member countries; and
- the establishment of the Council of ECO Heads of Customs Administration which would act as a policy making body with regard to various regional customs issues.

Moreover, the Heads of Customs, realizing that the present transit transport charges being one of the major trade barriers, agreed to collect the relevant data in this respect with the ultimate aim of reducing these charges in the ECO region.

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The Secretariat has recently embarked upon an initiative with International Trade Centre (ITC) on trade promotion using the ITC methodology, so-called the South-South

trade promotion. The purpose is to create the business sector's awareness and identify trade potentials in the region and to translate them into transactions by bringing together buyers and sellers.

In this regard, ITC has already started the first step of its approach namely carrying out of a trade flow analysis of ECO Member Countries and has just furnished the results to the Secretariat. Based on the results of this analysis, a full-fledged project will be developed to be executed by ECO and ITC jointly in cooperation with the Member Countries.

One of the main factors hampering trade in the region is high transit fees and charges. In this regard, the Secretariat proposed to harmonize and reduce these fees in the 6th Heads of Customs Administration Meeting, held in Tashkent in June 1999 and the Member States agreed to take the required action in this regard.

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Now, I would like to mention about the achievements concerning relations with international organizations. ECO's cooperation and relations with Regional and International Organizations continued to develop further, during the year 1999. I would, therefore, like to highlight some of the important developments in this respect:

ECO has been accorded Observer Status in the World Trade Organization's Committee on Trade and Development. The ECO Secretariat was invited to the 25th Session of the Committee on Trade and Development and the WTO's Third Ministerial Conference, held in June and November last year in Geneva and Seattle, USA respectively. The ECO Mission, accordingly, attended these events during which the expansion of cooperation between ECO and WTO was also reviewed.

As a result of these endeavours, the WTO Secretariat agreed to hold the 3rd ECO Region Seminar on "Trade Negotiations Simulation" to be held in the ECO Secretariat from 6 to 10 May, 2000 with technical and financial assistance of WTO. I hope these kind of Seminars will contribute to capacity building of the Member States, particularly, for those who are in the accession/application process, in order to better prepare for their WTO negotiations. I take this opportunity to extend our thanks to Pakistan and Turkey who contributed to the promotion of ECO's relations with WTO.

Also, ECO established contacts with the International Trade Center (ITC), which will undertake its "South-South Trade Promotion Programme" to increase intra-regional trade as explained earlier.

The ECO Secretariat attended the First Focal Points Meeting on increasing intra-trade among the Islamic Countries, held in September, 1999 in Jeddah, which was organized by the Islamic Development Bank.

ECO also participated in the ESCAP Meeting of the 11th Steering Group of the Committee on Regional Economic Cooperation, held in September 1999, to discuss regional trading arrangements as well as the integration of developing countries into the international trading system.

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Having sketched the current ECO trade cooperation, may I now move to the trade situation in the region. The weak world commodity prices, the Asian financial collapse, and the economic turmoil in Russia have all contributed adversely to the trade performance of the ECO region as a whole. In the year 1998, the total ECO exports declined to 58.5 billion US \$ showing a 13.5 percent decrease compared to 1997, while total ECO imports contracted less i.e. by 5.1 percent having dropped to 84.2 billion US \$ in 1998. Thus total trade turnover of the region amounted to 142.7 billion US \$, experiencing an 8.8 percent decline from the previous year.

With regard to the structure of ECO's trade with its major trading partners, ECO's biggest trade partner continues to be the European Union (having a share of 41 percent) with Russia and the US coming as close seconds (having shares of 6.8 and 6.5 percent respectively), followed by Japan as fourth (with a share around 5 percent) in 1998.

Regarding the intra-ECO trade in 1998, we see that out of 58.5 billion US \$ worth of ECO exports, only 4 billion US \$ worth of export took place among the Member countries, which implies an intra-export ratio of 6.9 percent. As for the import side, out of 84.2 billion US \$ total ECO imports 3.8 billion US \$ realized in the region showing a rate of 4.5 percent of intra-import. This performance surely is not up to our expectations.

Commodity composition of intra-ECO trade consists mainly of petroleum and petroleum products, cotton, textile yarn, grains (mainly wheat, barley, and rice), other vegetable products, base metals, processed agricultural products (e.g. sugar, pasta, biscuits, etc.), chemicals (e.g. fertilizers, polymers, washing powder, etc), cooking oil, hides and skins, machinery and electrical appliances, and vehicles and automotive spare parts.

In fact, intra-regional trade is much more concentrated among Azerbaijan and Central Asian Member States (ACAMs) with a ratio of around 15 percent. Contrary to the ACAMs; trade exchanges between founding Member States are disappointingly low.

There are several reasons for this poor performance which can be grouped into two categories: those related to conjunctural (i.e. state of macroeconomic performance and balance of payments difficulties) as witnessed by the sudden fall of major commodity prices and the Russian crisis and those of longer term and structural impediments to trade.

Presently, major impediments to trade are mainly in the nature of non-tariff barriers (NTBs) such as licensing, import surcharges, high transit charges, restrictions on payment and banking services and customs delays among others. In addition, the lack of information on existing market opportunities in the region is another important factor. Because of this presumed insufficiency of information, it is generally considered that regional market potential is negligible. Infrastructural deficiencies concerning land and railway transportation as well as lack of institutional and human resource capacity in Azerbaijan and Central Asian Member States can be reported as the main constraints to trade expansion in the region.

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Evidence on the experiences of regional organizations shows us a checklist of ingredients crucial to the success of regional arrangements: A deep commitment to liberalization, lowering transport cost by developing physical and non-physical infrastructure, keeping regional arrangements as simple as possible and active involvement of the private sector are essential pre-conditions to achieve a successful record of cooperation.

Furthermore, the experiences of regional trade agreements of the past three decades show that a piecemeal approach is inadequate and proceeding along sectoral lines is difficult. Reducing tariffs on a product-by-product or a sector-by-sector basis rather than liberalizing across the board resulted in long exceptions lists and high tariffs.

The main task remains in preparing the ground by taking necessary measures and policy decisions to simplify trade policies and to remove obstacles on the way of trade in order to accomplish our targets and to reap the benefits thereupon. I must emphasize that the realities of globalization compel us to move in this direction. The center of the debate has shifted nowadays from whether or not to liberalize to how to exploit the new global opportunities.

In this increasingly globalized and borderless new world economy – where trade, investment, technology and information move evermore instantly and effortlessly across the planet – we cannot rely on traditional policy tools and old approaches.

What is to be done? Clearly, this is not a moment to set out a blueprint for change. This is the moment to create awareness of need for changes. And more important, it is a moment to set out a larger vision and goals. Let me sketch a few general outlines in this connection:

First, we must accelerate our efforts to develop an ECO-Trade Agreement, which will envisage modalities and scope for removal of trade barriers without jeopardizing the other international commitments of Member Countries.

Second, we shall provide the required assistance to the extent possible to Azerbaijan and Central Asian Members, who face immense challenges of transition to establish market based economy. We have to assist them in developing their trade and adequate supply capacity, through infrastructural institutional and human resource development alongwith investment. So, I call upon the founding members to provide necessary support to overcome transitional bottlenecks of new members.

Third, most of our members are either in acceding or applying process to WTO. As our other members, who are already members of WTO, would recognize, accession process is rather complex, demanding and time-consuming. Again, I call upon particularly Pakistan and Turkey to extend their assistance and cooperation to the acceding members in the relevant working groups of WTO in order to accelerate their accession with more favourable terms.

These may seem a huge task to carry out. But there is no better time than the start of a new century to accelerate our cooperative efforts and to prove that ECO will play its role with increased effectiveness in the period ahead.

I am grateful for your kind attention and wish our meeting a successful outcome.

I Thank you.

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