ECONOMIC COOPERATION ORGANIZATION

ECO

ECO ANNUAL ECONOMIC REPORT 2009

ECONOMIC COOPERATION ORGANIZATION

Annual Economic Report

2009

Foreword

The ECO Annual Economic Report 2009 is the 10th edition of the annual regional economic report on member economies of the Economic Cooperation Organization (ECO). The Report offers an assessment of major macroeconomic trends in ten ECO economies for the year 2009.

During the reported period, economic performance in ECO was balanced. The impact of the ongoing global economic crisis was felt in the financial sector of ECO economies. Such effects were greater in some of regional economies and were less in others. The level of economic interdependence with global markets has shaped performance of ECO members during the reported period.

Prudent policies undertaken by regional governments facilitated implementation of anti-crisis programmes. Those countries, which had stabilization funds on and well functioning by the time of the crisis, were better off. Global imbalances, for these states, did not underscore sustainable performance of their respective social sectors. Social transfers helped to sustain social well-being in the region.

Growth projections for 2010-11 have evolved from the overall economic downturn in world's various regions during 2009. In many ways the performance of the region in near term will be defined by how fast recovery processes under the current external environment will succeed. In this regard, sound policies and ongoing structural reforms in ECO countries would be required for achieving robust, sustainable economic growth in the region in the long run.

In preparing the present issue, sincere thanks will go to ECO's international partners, including SESRIC, FAO, UNIDO, ESCAP and IRTI. The publication would not have been possible without the support of National Statistical Offices and Economic Research Centers of the Member States whose contribution to this Report was enormous.

Secretary General

Mohammed Yahya Maroofi

Conventions, Data, Assumptions

The ECO comprises the following member states: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan. The attached statistical appendix tables contain data provided by these members. Wherever no official data were provided by members, credible sources such as IMF, WB, WTO, UNCTAD, UNSD, UNESCAP, SESRIC, UNECE, FAO and UNDP were used for derivation of performance indicators. During the reported period, 2009, a few adjustments were made by individual members as well as international economic and financial organizations in assessment of world development indicators. Adjustments relating to the indicators of real economy growth, inflation, trade balance, current accounts, foreign direct investment and debt were made based on the data provided by members in the course of preparations of the issue.

In this publication the abbreviation "AER" stands for the Annual Economic Report for 2009. Most abbreviations used in this publication to indicate the names of international organizations, regional and sub-regional entities are authentic to those accepted by the United Nations. In the AER, the following definitions refer to: y/y - year-on-year; e.o.p. – end of the period, ncu- national currency unit, a. – annual, ave. – average, % - percent, series – 2000-09. In the interest of user friendly reading, the sequence of numerical indicators has been omitted, especially when comparing e.o.p. indicators with those of the previous period. For ease of a reader, these could be consulted in statistical appendix.

The following assumptions have been adopted for the figures presented in the publication: the indicators for 2010 and 2011, 2014 are estimates derived from forecast figures shown in statistical tables of statistical offices for the reported period. These also derived from official websites of National Statistical Offices of member states as well as their statistical bulletins. Some of the 2008 estimate data shown in tables may refer to the uncertainties surrounding them and add to the margin of error that would, in any event, be involved in projections. The following conventions are used in this publication: in tables, ellipsis points (...) indicate "not available," and 0 or 0.0 indicates zero" or "negligible"; a dash (–) between years or months (for example, 2008-09 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2008/09) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2009); "billion" means a thousand million; "trillion" means a thousand billion; "basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point); the term "real economy" refers to a real GDP growth; the term "annual inflation rate" refers to the annual core inflation rate; the terms "by end year" and "year-average" refer to the end-of-year annual rate; the abbreviation "WEO" refers to world economic outlook, "WDI" refers to world development indicators; the abbreviations ending with 'stat' refer to statistical, the terms "on average" and "average" refer to figures showing weighted average indicators; the contracted word "statyearbook" refers to the statistical year book; the term "statdata" refers to statistical data; the term "current accounts" refers to current account balance, the term "M2" refers to transactions money plus saving accounts, money market accounts, and other monies of a respective country; the term "local currency" refers to the unit of account used as a national currency in a given country; the term "local authorities" refers to competent government bodies of a respective country.

The hard copies of the ECO Annual Report 2009 will be provided to member states. Inquiries about the publication may be sent by email to the following electronic address: ders@ecosecretariat.org to B.Adilbekova, Director PERS. Telephone inquiries may be directed to the following telephone number: + 982122831733/34 ext 254

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Part I. ECO Regional Development

Macroeconomic performance of the ECO region in 2009

Overview

During 2009, the global economic environment was showing first signs of recovery from the financial crisis. Yet, the dust storm of the credit crunch in money markets had not fully settled down. Implementation of exit strategies from world's worst economic crisis was still early in time.

A thirst for a more rigid financial regulation was in the air. The pattern set by world's advanced economies in bailing out banks by public sector was widely followed. Such bailouts, however, despite having a collateral against future earnings of *big* banks, found little support among taxpayers.

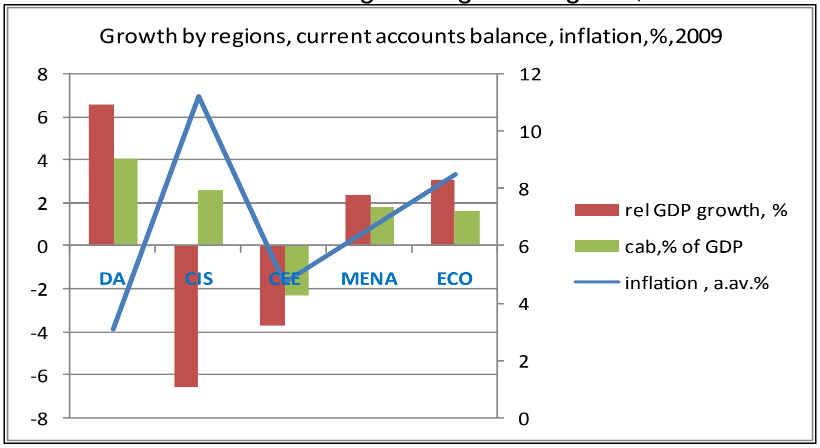
International financial institutions have mobilized generous anti-crisis rescue money. Value of financial stimuli reached an estimated US$1.1 trillion worldwide. Owing to such timely action, the world economic growth declined to 1.3 percent in 2009.

Yet, in spite of huge financial help, even relatively wealthy countries had to suffer from economic shake up. The fear of bankruptcy was felt by Ireland, Greece, and some Baltic economies with Portugal and Spain to potentially align along the similar path.

The pace of economic recovery varied across regions. Some economies, mainly in Asia, were recovering at 7.0 to 9.0 percent of real GDP growth rate. Growth in others in the West, have declined to 3.0 and 8.0 percent. The need to re-balance recovery process in order to eliminate risks of potential setbacks was catching momentum during 2009. Growth in ECO region was moderate in 2009 compared to that of neighboring regions. A wide amplitude posed by 6.6 percent GDP growth in countries of Developing Asia (DA) and 6.6 percent decline in the Commonwealth of Independent States (CIS) indicated at varied pace of economic recovery in world's regions. ECO's growth was supported by moderate inflation, which was curbed to 6.8 percent annual average. This was similar to that in countries of the Middle East and North Africa (MENA).

ECO's current accounts balance stood at a surplus of 1.8 percent, which compared to the deficit of 2.3 percent in countries of Central and Eastern European countries (CEE) was healthy. However, compared to 4.1 percent surplus obtained by countries of Developing Asia, ECO had still much to do to accelerate its recovery.

Chart 1. Growth in neighboring sub-regions, in 2009



Source: UNSD, WDI, ECO NSO

During the third year of the global economic crisis, resistance of individual economies to the downturn was varied. Oil producing economies benefited from favorable terms of trade for their exports. These countries were able to easily withstand the crisis. However, those whose exports revenue could not cover the gap posed by purchases of imports at rising fuel and food prices, had difficulties.

To that effect, real GDP growth in ECO region fell to 3.1 percent in 2009 compared to 6.7 percent in 2008. Contribution of individual member economies to regional growth during 2009 also varied. Azerbaijan, Uzbekistan and Turkmenistan showed 9.3, 8.1 and 6.1 percent real GDP growth whereas Kazakhstan and Pakistan grew at 1.1 percent and 2.0 percent rate. Growth in Turkey, the largest economy in the region, declined to 4.7 percent.

Despite overall regional downturn, governments of Kazakhstan, Uzbekistan and Turkmenistan ensured that social safety nets remain viable. Stable transfers to social sector in these countries helped cushion the impact from the shocks of the global crisis.

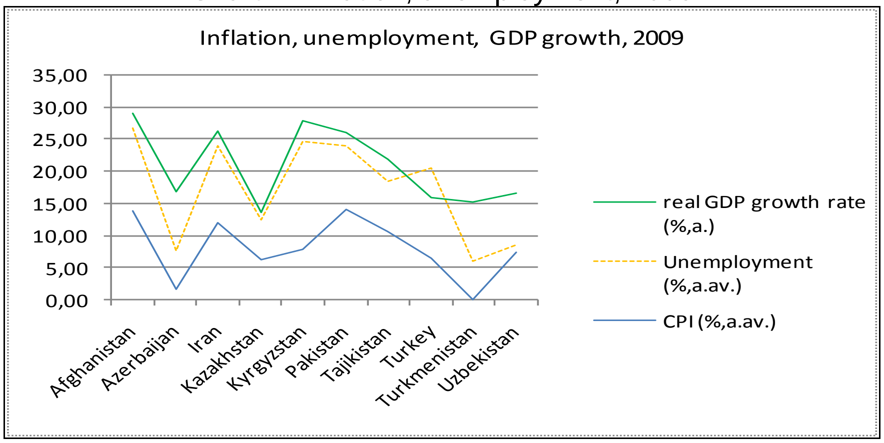
In view of low growth worldwide, the region was able to generate US$1.3 billion of GDP at current prices. The per capita real GDP declined to US$3,007 on average in 2009, which was far below the 2002 year level.

Prices

In 2009, inflation has generally declined in developing world towards the year end. Such tendency was supported by governments' measures in tightening their fiscal and monetary policies. Regionally, low demand in world's commodity markets, has pushed inflation down. Afghanistan's annual declined to minus 4.7 percent. Azerbaijan succeeded in maintaining its inflation rate at 1.5 percent compared to 20.8 percent in 2008. Turkmenistan had 0.1 percent inflation rate by the year end. Kyrgyzstan was able to cut its inflation by half to 10.3 percent from 20.6 percent high in 2008. Afghanistan, Pakistan, Iran and Turkey were along similar lines keeping their inflation low. By the end of 2009, the annual average inflation rate in the region contracted by 32.6 percent to 6.8 from 10.4 percent in 2008. The figure was still higher than world's average 5.7 percent estimated for emerging and developing economies.

Unemployment in the region increased to an average 8.5 percent compared to 6.5 percent on average in 2008. A number of reasons attributed to such rise. Job cuts were mainly due to lower industrial production. Return of migrant workers to their home countries contributed to rising unemployment. Contraction of work loads in neighboring countries such as Russia, Saudi Arabia, and some European economies was one of main reasons behind the release of increased numbers of unemployed in the region.

Chart 2. Inflation, unemployment, 2009



Source: ECO NSOs

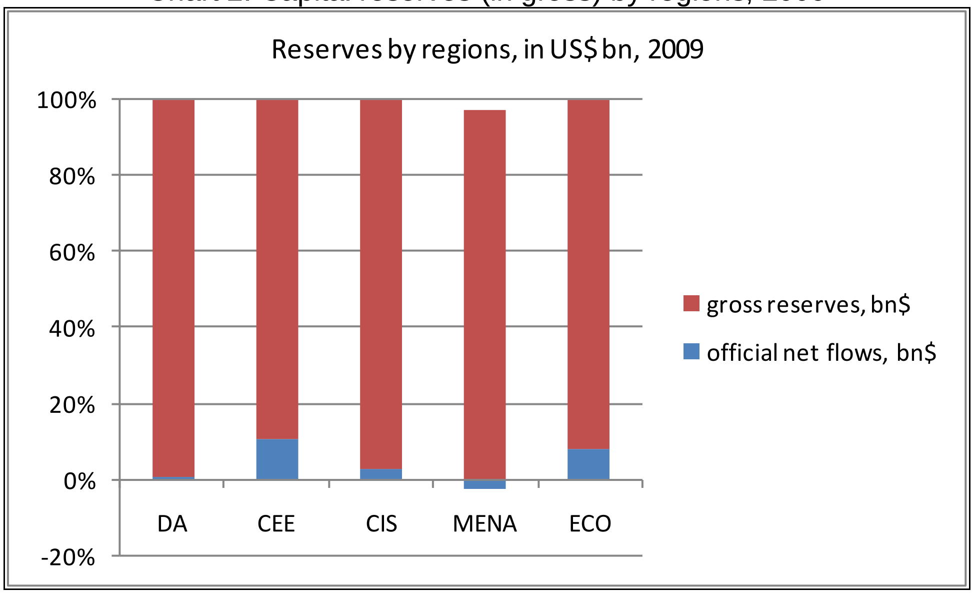
External Sector

During 2009, domestic consumption was suppressed globally. Such cut back had several reasons behind. Tendencies that prevailed during 2009 towards consuming less and saving more, - discouraged the growth in consumption. Fall in global demand for resources, and high prices for fuels and edibles were the main causes which led to low consumption.

Investment in the region has generally contracted. Mass redemption of foreign owned assets, which was strong in the second half of 2008, started reversing little by little. Recent capital outflows gradually reversed its trend. These came back to credit regional economies. Subsequently, domestic investment started picking on. Support by external fiscal stimuli and the increase of the tax base were helpful. By the end of 2009, regional investment reached 19.2 percent of GDP at current prices. Internal market opportunities, evolving from previous foreign capital redemption, have opened up for domestic investment to fill in. High inflation risks prevailing in 2008 necessitated banks in ECO countries to cut their interest rates in 2009. These measures stimulated economic activity.

Banks of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan were well capitalized. Furthermore, these have established the so called sovereign funds, which have accumulated sufficient capital at times of economic boom. However, the fear of systemic risks, especially in banking sector sustained. Turkey and Pakistan suffered from the drop in their reserves. The causes varied from the increased domestic expenditures as in Pakistan to capital redemption in Turkey due to foreign risk averse investor behavior. Official reserves in these countries have depleted. In Pakistan these shrunk to US$9.1 billion compared to US$16.5 billion in mid-2008. Furthermore, Turkey's FDI reached US$6.0 billion in 2009 compared to US$22.7 billion in 2008. Revenues of Turkmenistan, Uzbekistan, and Azerbaijan remained largely undisturbed due to their improved tax administration and relatively improved economic diversification. Gross capital reserves were put up at 15.1 percent of regional GDP at current prices. Kazakhstan accounted for 44.0 percent, Uzbekistan 33.5 percent, Azerbaijan 12.5 percent of total. For year 2009, Azerbaijan, Iran, Turkmenistan and Uzbekistan were rated by IMF as net creditors.

Chart 2. Capital reserves (in gross) by regions, 2009



Source: UNSD, ECO NSO

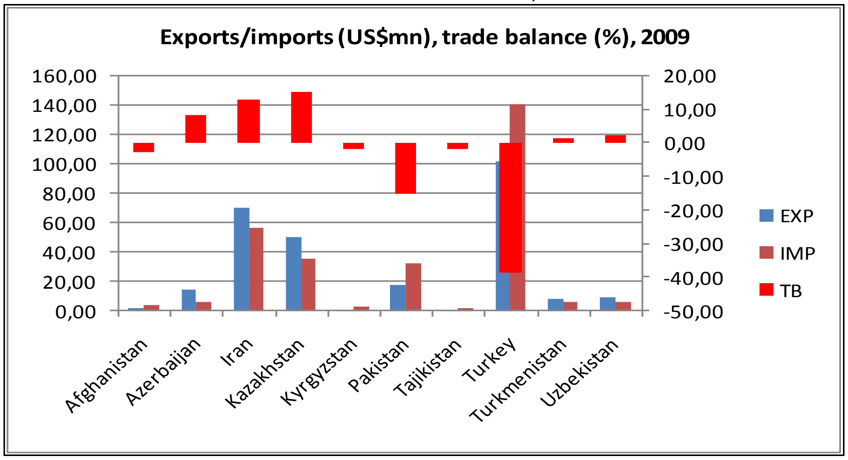
Investor confidence started to restore gradually. Yet, among the challenges faced by the region, foreign direct capital deficiency was the main. The FDI inflows have fallen by 25.0 percent on average to US$26.2 billion compared to US$35.0 billion in 2008. Azerbaijan, Kazakhstan and Turkey accounted for an average 19.6 percent of total FDI in 2009.

Trade Balance, Exports/Imports

In 2009, trade in the region was in deficit of US$18.6 billion. The overall trade turnover declined by 2.0 percent against its volume in 2008. It stood at US$571.8 billion. Imports declined to US$295.2 billion, showing a 3.7 percent decrease compared to 2008. Exports decreased by 0.2 percent compared to 2008. These stood at US$276.0 billion in 2009.

The main contributor to ECO trade is Turkey. Its trade in 2009 accounted for 42.4 percent of overall regional trade. Decline in Turkey's trade volumes have impacted the region's trade considerably. Textile goods volumes in the region and the re-exporting have been affected. At the same time, regional countries trading in oil and gas were in surplus, Kazakhstan at 15.3 percent, Iran 13.0 percent, Azerbaijan 8.8 percent. Uzbekistan had 1.6 and Turkmenistan 2.3 percent.

Chart 4. Trade in ECO, 2009



Source: ECO NSOs, Country Reports

The ratio of intra-regional trade to ECO's overall trade in 2009 has slightly decreased from 7.3 to 7.2 percent in 2008. The share of countries in overall intra-trade in 2009 varied with Afghanistan and Kyrgyzstan accounting to 35.0 and 20.0 percent of total whereas Turkey accounted to 4.6 percent and Azerbaijan for 7.2 percent.

Fiscal and Monetary Policies

During 2009, some countries started formulating exit strategies from the crisis. Although still early in time but looking onwards, these strategies foresaw ways to prevent economies from potential asset bubble.

The use of public funds for purposes of recapitalizing the banking sector was largely offset by external stimuli. Owing to this fact, budgets of individual regional economies remained largely undisturbed by financial turbulences. ECO's budget deficit stood at 0.23 percent of the combined GDP in 2009. The performance of the current accounts was mixed. The current accounts deficits of Pakistan, Turkey and Tajikistan have widened to 5.6 percent, 2.3 percent and 9.7 percent of their respective GDPs. Meanwhile, Turkmenistan was in large surplus of 17.8 percent, Uzbekistan 12.0 percent, and Azerbaijan 10.8 percent[1]. To this end, the regional current accounts balance was in surplus of 1.6 percent in 2009.

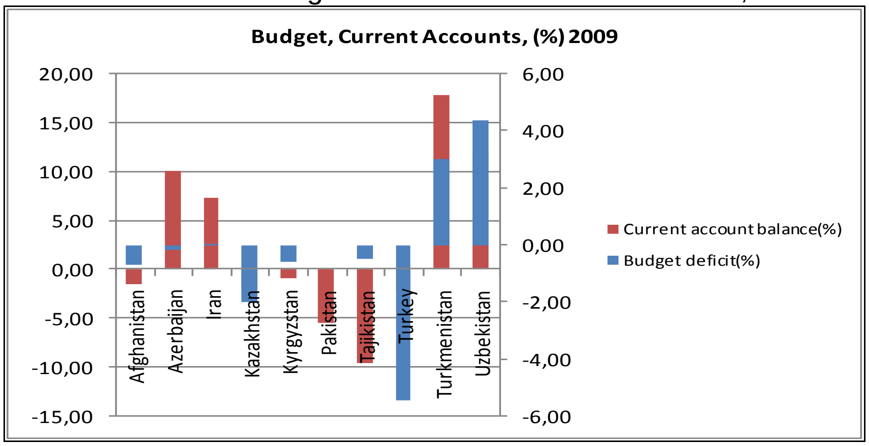
As elsewhere in the world, external debt in ECO countries has increased during 2009. Gross external debt stood at an average 27.8 percent of the combined GDP at current prices. It increased by 26.5 percent compared to 2008. The highest debt to GDP ratio was observed in Turkey, Pakistan and lowest in Uzbekistan. Turkmenistan had no external debt obligations outstanding in 2009.

Vibrancy of economic activity in the region heavily depended on crediting the real sector. In crediting the businesses, external financing under austere conditions and liquidity shortages were recorded in Pakistan and Turkey. Most countries of the region were still facing low credits to real economy. Monetary policies focused on further

[1] According to IMF estimates, Azerbaijan's current account balance was in surplus of 10.8 percent in 2009.

reductions of policy rates by major banks. These measures primarily targeted the revival of business activity.

Chart 5. Budget and current accounts balance, 2009

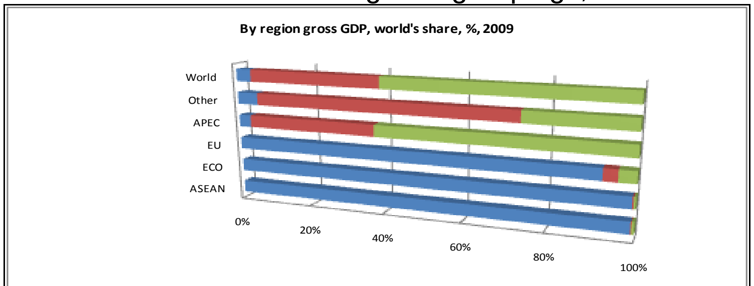


Source: ECO NSOs

Outlook: Economic outlook for 2010 in the ECO region is positive. With internal potential, which has been safeguarded by an estimated 411 million population, economic development in the region was stable since the start of the global economic crisis. The region's growth in 2009, which came to be the peak of the crisis, was not negative. In the coming year, a room to ease monetary policies will be further exploited, especially, in view that inflation concerns have moderated. Inflation is expected to gradually come down to 6.2 percent during 2010.

Fiscal stimuli plans will continue supporting growth and provide a soil to restore health to financial sector. The upward revisions of real GDP growth projections for 2010 by some regional economies are likely to be within 0.75-1.50 percent, given that the countries would pursue rigid fiscal policies. The FDI flows into the region will gradually recover in view of ongoing large infrastructure investment projects in regional economies. Active involvement of the economies' stabilization funds, as well as stimuli, will support gradual economic recovery. The region is expected to grow at 3.5 percent of real GDP in 2010. Its performance relative to other regional groupings is well positioned. ECO holds 2.0 percent of world's GDP.

Chart 6. Growth in regional groupings, 2009



	ASEAN	ECO	EU	APEC	Other	World
population (mn)	591	411	496	2,7	4,1	6,6
GDP in trn$	$1,51	$1,37	$18,14	$29,00	$50,00	$57,94
share of world's GDP, ppp	3,8	2,0	22,1	52,8	19,3	100,0

Source: World Development Indicators, 2010

Recent moderation of inflation risks has created the way for banks in ECO countries to cut their interest rates. These in 2010 will be further reduced against their 2009 rates, to further encourage businesses. Under such conditions, economic activity could fully recover by 2013.

Trade will improve. Intra- regional trade will increase owing to the increased intra-trade transactions. Due to favorable business climate in regional countries in previous years, Azerbaijan was able to improve its ranking in year 2009 to 38th by ease of doing business and Afghanistan to 168th on the other end of the ladder. In the years ahead, the ratings of countries will surely improve as economic activity would gradually gain the pace.

Part II. Developments in Main Areas of ECO Cooperation

Transport and Communications

Given the strategic location of ECO as a bridge between east and west, development of transport sector is one of the most important objectives of the ECO. It has all along endeavored for sound regional cooperation in this field. The objectives for development of transport infrastructure in the ECO region were set out in the Quetta Plan of Action, adopted by the ECO Council of Ministers in February 1993. These were reinforced in the ECO's Long Term Perspectives (Istanbul Declaration), endorsed by the 2nd ECO Summit, in July, 1993. Following this, in October 1993, the ECO Ministers of Transport and Communications adopted the Almaty Outline Plan for the Development of the Transport Sector in the ECO Region. This plan formed the basis for the Program of Action for the ECO Decade of Transport and Communications (1998-2007).

Many other initiatives have been undertaken beside the above program for development of transport and assuring seamless movement of cargo and passengers in the region. Thus, since the expansion of ECO from three to ten members in 1993, seven ministerial meetings have taken place in this sector. Also various committees, working groups and programs have been set up for different sub-sectors, including railway, road, maritime transport, civil aviation, post and communications, and multimodal transport. The ECO Secretariat annually plans around 30 events in this field.

Program of Action for ECO Decade of Transport and Communications

The Program of Action for ECO Decade of Transport & Communication was adopted by the 2nd Ministerial Meeting on Transport and Communications on 14 March 1998 in Ashgabat. After the final endorsement of the Program by the 8th Meeting of COM (May 1998, Almaty), its implementation was followed up by the RPC meetings.

The 6th ECO Ministerial Meeting on Transport & Communications (Tehran, 24-26 April 2006) decided to set up a High Level Expert Group Meeting (HLEGM) to evaluate the status of implementation of the projects envisaged in the Program and to elaborate on initiating new projects by different Member States.

The 17th COM Meeting (20 October 2007, Herat) decided to extend the Program until a new program was finalized. The 7th Meeting of the ECO Ministers for Transport and Communications (March 2008, Antalya) decided that a study would be initiated to prepare for the new program. The Secretariat has circulated a project profile format as a guide to showcase regionally important projects by the Member States. The bankable projects identified for the next phase of the program would be submitted to a donor conference to attract potential financial partners. The date and venue of the donor conference would be determined by the HLEG Meeting.

The First HLEG meeting on the above Program of Action (Tehran, December, 2008) considered preparation of the New Programme of Action (2009-2015).

The 19th RPC Meeting recommended establishing an ECO financial mechanism to support transport infrastructure projects. The Council requested the ECO Secretariat to establish contact with international specialized and financial institutions, donor countries, trust funds, regional investment funds, and other relevant institutions for partnership.

The secretariat is following up the issue and would submit the latest developments to the HLEG Meeting to be held in the second half of the year 2010 in Tehran.

Implementation of the Transit Transport Framework Agreement (TTFA)

The TTFA came into force in May, 2006. So far, all ECO Member States, except Uzbekistan, have signed the Agreement, and all the signatories, except Turkmenistan, have ratified it. The Transit Transport Coordination Council (TTCC) and its five technical committees have been set up to coordinate the TTFA implementation.

The Motor Vehicle Third Party Insurance Scheme (ECO White Card) came into force in 2008. The Member States are specifying their National Bureaux to participate in the Scheme. So far, Afghanistan, Iran, Pakistan, Tajikistan and Turkey have done so. The ECO Council of Bureaux is being set up to coordinate the functions of the National Bureaux. Its Office was set up in November 2008, with secondment of an officer by Iran. An Additional expert is being recruited utilizing TTFA Fund. The first Meeting of the ECO-CB was held in 2009.

The TTFA Fund was set up in 2008 as decided by the 2nd TTCC Meeting. The ECO Council of Permanent Representative allocated US$50,000 from the Feasibility Fund to the TTFA Fund. The CPR was requested to further allocate US$100,000 to enable the Secretariat partially cover the costs of implementing the Fund's Work Programme for 2009 approved by the 3rd TTCC and the 19th RPC Meetings. The RPC further requested the concerned authorities of the Member States to consider voluntary contributions to the TTFA Fund and the Secretariat to approach relevant regional and international institutions, the private sector and the ECO-TDB for their contribution to the Fund.

A Joint ECO/IDB Technical Assistance Project worth US$512,000, for implementation of the TTFA is under implementation. The TTFA requires more resources, and the Secretariat is trying to mobilize resources from international organizations.

The Transit Transport Coordination Council (TTCC) is the highest body monitoring implementation of the TTFA. So far, four meetings of the TTCC and its auxiliary bodies i.e. Road, Railway, Insurance and Transit Trade committees were held. The fifth meetings will be held in the second half of the 2010.

As a way to enhance inter-sectoral coordination at the national level for implementation of the TTFA, National Inter-Ministerial Committees are being set up in the member states.

The 7th Ministerial Meeting on Transport and Communications

The 7th ECO Ministerial Meeting on Transport and Communications was held in Antalya (Turkey) on April 17, 2008. The Ministers took decisions on a wide range of subjects, including Implementation/evaluation of the Program of Action for ECO Decade of Transport and Communications (1998-2007), the TTFA, regional cooperation in the field of railway transport, multimodal transport, establishment of the ECO Logistic Provider Associations' Federation (ECOLPAF), maritime cooperation in the region, civil aviation, telecommunications and postal cooperation, and cooperation with international organizations. The Ministers adopted the Antalya Declaration. The 8th ECO Ministerial Meeting on Transport and Communications will be held in Turkmenistan in August 2010.

ECO Trains on Almaty-Istanbul Route

A time table for the container Train on Istanbul-Almaty Route was approved by the 2nd Meeting of the Working Group of the Train (Astana, 2007).

As recommended by the 18th RPC Meeting, the CPR approved allocated US$100,000 from the ECO Feasibility Fund for a study to facilitate regular operation of the Istanbul-Almaty Trains. The concerned member states were requested to nominate a national consultant for participation in the study. International consultant has also been recruited to lead the study. A preparatory Meeting would be held in May 2010.

A Meeting of the En-route Countries of the above Trains (Tehran, December 2008) decided on a revised time-table for the Container Train to further shorten the travel time of the container train from 9.5 to seven days. It considered tariff tables and wagon charges announced by the en-route countries. A delegation of China attended the Meeting. They renewed China's interest in the ECO Container Train on Istanbul-Tehran-Almaty route. The Meeting decided to revise the Action Plan for Revitalizing the China-Middle East-Europe-Corridor, with China's involvement. A demonstration train was also agreed to be launched on Istanbul-Urumchi-Istanbul route in 2010.

The Islamabad-Tehran-Istanbul Train (ITI Express)

The 7th Ministerial Meeting decided to launch a demonstration train from Islamabad to Istanbul. A Meeting of the concerned Ministers of Iran, Pakistan and Turkey was held on March 1st 2009 to decide on various matters pertaining to operationalization of the Train. The four Meetings of the High Level Working Group on this project were held in 2009. The Demonstration Train inaugurated on 14th

August 2009, initiating its travel from Islamabad to Istanbul via Tehran. Negotiations are ongoing to finalize the timetable and tariff rates of the route.

The 19th RPC Meeting requested Turkey to initiate contacts with the European authorities, in particular, Bulgaria, to facilitate connection of the Istanbul-Almaty and Islamabad-Tehran-Istanbul Trains to Europe. The train will start its regular operation on 2nd August 2010 from Istanbul.

Feasibility Study of the Container Train run along Bandar Abbas-Almaty Route

A study has been proposed by the Republic of Kazakhstan for a Feasibility Study of the Container Train run along Bandar Abbas-Almaty Route. The Study would involve participation of the National Focal Points of the concerned Member States. A meeting of the concerned authorities of the en-route countries was held in Kazakhstan in 2009.

The second meeting of the en-route countries will be held on June 19, 2010 to plan for launching a demonstration train on the route in the second half of 2010.

Trade Facilitation and Multimodal Transport Project

The 2nd phase of the above project was completed in June 2007, with the second regional workshop of the national and international consultants (25-27 June 2007). The third phase of the project was planned to include organizing national Multimodal Transport workshops, one in each member state, with participation of about 40 experts/officials.

Six workshops were held in Afghanistan (July 2008), Azerbaijan (September 2008), Iran (July 2008), Kazakhstan (August 2008), the Kyrgyz Republic (October 2008) and Turkey (March 2009). At these workshops, Resource Persons and speakers from UNECE, UNCTAD, UNESCAP, IRU, IMMTA, and other specialized institutions updated the participants with the latest knowledge and developments in Multimodal Transport.

The implementation of the project was accomplished in March 2009. Within this project the ECO secretariat was equipped with the Video conferencing facilities. This will enable the secretariat to keep direct contacts with focal points of the member states (ECO Units in the Ministries of Transport and Communications) and organize virtual events/meetings in different fields.

Maritime cooperation in the region

Pursuant to the decisions of the 4th Meeting of Heads of Reference Marine Organizations (HRMO) of the ECO Member (Tehran, February 2008), regarding the assistance of transit member states to landlocked members, Iran provided a list of facilities, discounts and special arrangements to the advantage of the ECO landlocked member states at Chabahar Free Zone. These included the allocation of a land area “ECO Zone”, on which the ECO Member States may make investments and economic activities. Iran would also exert a 30-year tax exemption, discounts in leasing of industrial units and plants, and discounts in storage and handling charges. Furthermore, facilities to be offered at Gwader Port were being finalized by the concerned authorities of Pakistan.

The ECO Marine Website "www.ecomarine.org" was inaugurated in 2008. The website is designed and maintained by Ports and Shipping Under-secretariat of Turkey.

The ECO is strongly supporting the initiatives for implementation of the Almaty Plan of Action and Transit Facilitation for Landlocked and Transit Countries. The 18th COM (Tehran, March 2009) supported the proposal to study two selected sea ports in each ECO transit countries (Iran, Pakistan and Turkey) to be designated for providing concessional tariffs and facilities. The Council requested the Secretariat to approach OHRLL, UNCTAD, UNECE, UNESCAP and other relevant international organizations for technical assistance.

ECO Logistic Provider Associations' Federation (ECOLPAF)

On the sidelines of the 3rd Meeting of Heads of Reference Marine Organizations of the ECO Member States (Karachi, 2007), the representatives of the private sector from the Member States proposed the establishment of a federation of the national transport associations of the Member States. The Secretariat followed up this proposal and initiated contacts with the concerned authorities of the Member States and the relevant international organizations, including International Freight Forwarders Association (FIATA).

The representatives of the private sector of the Member States held the 1st Preparatory Meeting of the Federation in February 2008 in Tehran. In this Meeting, they agreed on the steps to have the Federation operational within a given period. The Turkish Freight Forwarders Association was designated as the coordinating body to draft necessary documents. Four successive hosts of the meetings of the Federation were also specified. The name of the Federation was adopted as "the ECO Logistic Provider Associations' Federation", abbreviated as "ECOLPAF". The 2nd Preparatory Meeting of the Federation will be hosted by the Turkish Freight Forwarders Association in 2010. Iran, Pakistan and Kazakhstan have offered to host the next three consecutive meetings of the Federation.

Postal cooperation

Pursuant to decisions of the 4th Meeting of the ECO Postal Authorities (Baku, October, 2007) and its 5th Meeting (July 2009, Islamabad), a Workshop on Privatization of Postal Services and Cost Accounting and a specialized committee meeting to work out the technical and operational aspects of establishing linkages between the postal financial services and e-shopping facilities of the Member States were respectively held in Iran and Turkey in 2010. The design of the ECO Postal

Website is being improved, with the assistance for the postal authorities of Iran. A common stamp was issued by the posts of the ECO Member States on the occasion of the 10th ECO Summit in March 2009.

Based on the recommendations of the above mentioned specialized committee and the decisions of the Heads of Postal Administration, the member states will finalize the frame work for networking of a regional financial system within ECO framework. This system, on pilot basis, is under implementation between Turkey and Azerbaijan.

Cooperation with International Organizations

The relationship of the ECO with relevant international and regional organizations on transport development is growing fast. In 2008, good working relations, through reciprocal participation in meetings, exchanging MoUs, and setting up joint projects, were maintained with UNESCAP, UNCTAD, IDB, UIC, IRU, IMO, OTIF, UPU, FIATA, UNECE, the Council of Bureaux of Green Card, and UNOHRLLS. A Trilateral Agreement on transport cooperation was signed between the ECO, UNESCAP and IDB. Separate MoUs were also signed with IRU and UPU.

Trade and Investments

Achievement of major objectives of the regional grouping is only possible by supporting measures aiming at enhanced trade and investment cooperation. The Member States are committed to integrate their economies through various initiatives in the fields of trade, investment, finance, trade facilitation and private sector cooperation. ECO Trade Agreement (ECOTA), now in the implementation phase would help liberalize and open up regional trade. The 18th Council of Ministers meeting (Tehran, March 2009) has already given a direction for Member States to initiate negotiations on entering into a Free Trade Agreement (FTA) to deepen concessions for granting enhanced market access. It would be a step forward towards establishing a Free Trade Area in the region by the year 2015 as envisaged by ECO Vision 2015. A more active role by the Member States in implementation of ECOTA and other initiatives in the fields of investment promotion, cooperation in customs, visa facilitation, banking and strengthening private sector cooperation would certainly help in advancing ECO objectives.

Trade is ECO’s highest priority. Intra–regional trade of US$ 41.1 billion and Foreign Direct Investment inflow of US$ 26.7 billion during 2009 falls short of expectations considering the huge regional potential. The region has tremendous prospects for enhanced intra-regional trade as well as increased share in global trade. It has significance in terms of economic challenges of eradication of poverty, provision of employment opportunities, optimum utilization of industrial potential and steady growth in exports. The region is in dire need of collective efforts to support necessary regulatory framework for trade and investment cooperation.

With visible progress already achieved by ECO, there is now an ever greater need for taking concrete measures towards the establishment of Free Trade Area in the ECO region by 2015. In pursuit of its declared objectives, a set of legal frameworks for strengthening regional cooperation in Trade, Investment, Customs, Visa Facilitation etc, have been laid down by the Member States. This has been supplemented by creation of institutional mechanisms to foster regional trade relations. Efforts are further reinforced through mechanisms of expert groups, private sector forums and networks in specialized areas.

ECOTA, a preferential trade agreement, signed in the 2nd Ministerial Meeting on Commerce/Foreign Trade (Islamabad, July 2003) offers tremendous opportunities for expansion of regional trade. The Agreement will be implemented gradually over a period of 8 years and will reduce tariffs to a maximum of 15 percent over 80 percent of the goods traded. The Agreement covers host of areas for trade integration ranging from the 8 year trade liberalization programme, NTBs, Para tariffs, transit trade, transport facilitation, Standards, Metrology, Testing and Quality (SMTQ), Rules of Origin, intellectual property and dispute settlement to those related with procedural formalities for smooth implementation of the agreement

The 4th ECO Ministerial Meeting on Commerce and Foreign Trade offered to be hosted by Afghanistan in November 2009 has been rescheduled to May/June 2010. An informal meeting of the ECOTA Cooperation Council is proposed to be held as a sideline event. The Ministerial meeting is expected to firm up position on ECOTA Tariff implementation, Multi-Dimensional Regional Trade and Investment Strategy, Action Plan for establishment of Free Trade Area by 2015, cooperation on WTO related issues, Trade Facilitation Measures and Joint Trade Promotional Activities of the Trade Promotion Organizations (TPOs).

The 1st Meeting of the ECOTA Cooperation Council (the implementing body for ECOTA) held on May 21-22, 2008 at Mersin, Turkey, took significant steps and decided implementation of the Agreement from 1st January, 2009. The Contracting Parties agreed to finalize their respective Positive, Negative and Sensitive lists by October 31, 2008. The Contracting Parties reached an understanding on H.S Code for the Tariff lines, Base Year, notifying Para-Tariffs, Laws on Standards and designation of authorities to issue ECO-Proof of Origin. It also decided that the Draft Protocol on Fast Track Approach to ECOTA may be considered at least one year after its implementation. The Republic of Turkey offered to host the 2nd Meeting of Cooperation Council in December, 2008 to resolve the remaining issues relating to implementation of ECOTA. So far, the 2nd meeting of the Cooperation Council could not be held as three of the Contracting Parties (Afghanistan, Iran and Tajikistan) have not provided their Positive, Negative and Sensitive Lists.

Progress has been made on ECO-UNIDO Project on Trade Capacity Building of ECO Member States and ECO-PIDE Study Project on the Study on Trading Patterns in the ECO region. The 1st and phase of the ECO-UNDI Project have also been completed. Under the 2nd phase, training courses have been held on Standards, Metrology, Testing/ Quality (SMTQ), and Need Assessments carried out, in nine (9) Member States except Turkmenistan. Work on the 3rd phase of the Project will be initiated shortly. Under the ECO-PIDE Project Trade Policy Review Sessions will be carried out in the Member States in May-June 2010.

The progressive removal of Non-Tariff Barriers (NTBs) has been the corner stone of ECO's strategy for regional trade expansion. ECO at various forums has identified such NTBs and has been continuously emphasizing the need for their early removal. The uncertainty of respective trade policy regimes is termed as a major NTB in the region. In some cases NTBs lead to more serious trade restrictions than the high tariff walls erected to thwart attempts for boosting regional trade. These also cast negative impact on the regional trade liberalization being achieved through the instruments of ECOTA.

Aware of the need to facilitate entry of all the ECO Member States in the multilateral trading system, the Secretariat is currently working on a number of proposals. These are intended to support policy measures and structural reforms on trade liberalization process. Among other steps, adoption of transparency in trade procedural mechanisms is to be taken by the regional countries. The removal of NTBs and measures to facilitate accession of Member States to WTO have therefore, now assumed higher priority in ECO's strategy for regional integration. ECO forums have already taken necessary decisions to speed up activities in identified areas to support WTO accession process of the regional countries. Preparations are afoot on hosting "Trade Policy Review Sessions" on the WTO pattern by the Member States.

As decided by the Informal Meeting on ECOTA held on the sidelines of the 18th RPC Meeting (Islamabad, 3-6 March 2008), the Secretariat developed a Concept Paper on the Technical Assistance and Capacity Building (TACB) of the ECO Member States as well as the ECO Secretariat. Areas identified under TACB include trainings in diverse fields of trade, investment, customs, taxation, legislative and policy formulation, R & D, export and investment promotion, etc. Pakistan's offer to be the Coordinating Country for TACB was endorsed by the 18th COM meeting. Initial plans aiming at developing a specialized institution with the support of WTO and other key international organizations are currently being fine tuned through mutual consultation between Pakistan Institute for Trade and Development (PITAD) and the ECO Secretariat.

The Agreement on Promotion and Protection of Investment (APPI) was signed by Afghanistan, Azerbaijan and Turkey during the 3rd ECO Ministerial Meeting on Commerce/Foreign Trade (Istanbul, July 2005). It was later signed by Iran during the 6th CHCA meeting held in September 2007 in Baku, Azerbaijan. The APPI envisages for common policy and common action for attracting investment in the ECO region and it would come into force upon signature/ratification of four ECO member states. ECO endeavors, aims at, facilitating a more frequent interaction among the regional investment promotion organizations.

Policy guidelines for boosting cooperation among the Member States in the field of finance and economy were formulated in the 1st Ministerial Meeting of Finance and Economy held on January, 2004 in Islamabad. The holding of 2nd and 3rd Ministerial Meetings on Finance and Economy (Antalya, April 2007) (Tehran, December 2008) and the 1st meeting of the Heads of Central Banks (Karachi, April 2007) were helpful in boosting cooperation among the Member States in line with the policy guidelines set forth by the ECO Ministers of Finance and Economy. The 4th ECO Ministerial Meeting on Finance and Economy will be held in Kazakhstan and the 2nd Meeting of ECO Heads of Central Banks in Tehran shortly.

Customs plays an important role in regional as well as international trade. Trade liberalization and enhanced regional trade demand removal of tariff and non-tariff barriers as well as facilitation of customs crossings. ECO in collaboration with the Customs Administrations of the Member States has taken necessary measures to that end. Simplification and harmonization of customs systems and procedures is high on the agenda of the ECO Council of Heads of Customs Administrations (CHCA). Specific needs of the Member States in customs cooperation have been prioritized. Besides, a data bank is being developed to combat smuggling and illegal trafficking of contrabands. Trade facilitation measures particularly, streamlining of transit trade procedures are the main objectives to be achieved through regional cooperation.

Cooperation in the field of customs has been re-institutionalized in the form of CHCA since 2000. A Sub Committee of Experts (SCOEs) of Customs has been established on permanent basis to consider all issues and make recommendations for strengthening cooperation in customs fields. During the 6th CHCA (Baku, September 2007), the SCOEs finalized the Draft ECO Agreement on Mutual Administrative Assistance in Customs Matters. So far, Iran and the Turkey have conveyed their readiness to sign the Agreement.

The Agreement on Establishment and Operation of ECO Smuggling and Customs Offences Data Bank, approved by the 3rd Ministerial Meeting on Commerce and Foreign Trade (Istanbul, July 2005) has so far, been signed by six member countries (Afghanistan, Azerbaijan, Iran, Pakistan, Tajikistan and Turkey), and ratified by the Republic of Turkey only. The Agreement will come into force after its ratification by four Member States.

The establishment and operationalization of ECO Trade and Development Bank (ETDB) established at Istanbul is one of the most important steps towards trade facilitation in the region. The Establishment of ECO Reinsurance Company in the near future will be another milestone for the development of cooperation among the ECO Member States.

Exchange of updated data/information relating to trade and investment among the ECO Member States has gained special significance. In this regard, ECO has developed an interactive web portal (www.tradeeco.org). The Web is now being activated through the designated National Focal Points (NFPs). Activities under the Web Portal Project are coordinated through the Ministries of Commerce / Foreign Trade / Trade Promotion Organizations and the organizations responsible for Investment Promotion. Orientation Seminars on ECO Trade & Investment Network were hosted in 2009 by Iran, Afghanistan and Pakistan. These seminars will be hosted by the remaining Member States in 2010. ECO project will be extended to assist Member States in promotion of e-commerce in the region. In addition, ECO also plans to conduct a study of the IT infrastructure in the region.

In the areas of trade and investment, ECO has achieved visible progress towards finalizing legal instruments, creating institutional arrangements and mobilizing Member States. It has established solid foundation in the fields of trade, finance, customs, trade facilitation and private sector cooperation. Activities are planned with a view to increase interaction among the relevant organizations of the Member States. New initiatives in the pipeline include a regional Mutual Recognition Agreement (MRA) in standardization, ECO Agreement on Joint Promotional Activities, ECO Trade Facilitation Agreement, Regional Agreement on Avoidance of Double Taxation and ECO Agreement on Prevention of Corruption and Money Laundering.

Within the framework of private sector promotion, the effective implementation and further updating/expanding the scope of the Agreement on Simplification of Visa Procedures for the Businesspersons and Transit Drivers of the Member States has been seriously pursued by ECO. The 18th Meeting of the Council of Ministers (COM) held in Tehran in March 2009, accorded approval of the Draft Additional Protocol and revised Action Plan. The Protocol was signed by Afghanistan, Iran and Pakistan during the above mentioned meeting.

Realizing the need to accelerate trade and increased inflow of foreign direct investment as a vital factor for economic growth, the ECO has embarked on an agenda of supporting the private sector. A dynamic private sector can supplement efforts to diversify economies, explore new markets, introduce latest technologies in manufacturing processes and establish joint ventures. ECO aims at unifying the efforts and mobilizing resources to meet the challenges of global competition. ECO Business Forums, Buyers/Sellers Meeting and Trade Fairs are organized for bringing the private sector in the forefront of economic development. The 1st ECO International Printing and Packaging Fair hosted by Iran (Mashhad November, 2009) is part of plans to continue holding ECO Specialized Fair as an annual regional event in the future. ECO is also planning to organize ECO Fairs/Pavilions outside the ECO region. The 3rd ECO Trade Fair to be hosted by Kazakhstan in 2009, could not be held because the Republic of Kazakhstan could not convey exact dates and other necessary details for the Fair. It is now part of the Calendar of Events of 2010.

ECO Chambers of Commerce and Industry (ECO-CCI) has been reactivated to pave the way for increased private sectors involvement by active participation in the trade promotion activities. Significant progress has been made by adopting the amended Statute of ECO-CCI during 2008. Besides establishment of ECO-CCI Women Entrepreneur Council, six sectoral committees have been formed for projecting the regional potential in diverse fields of economy. The 10th General Assembly and 13th Executive Committee meetings of ECO-CCI alongside the “Transportation Committee”, “Industry and Investment Committee” and the 2nd ECO CCI Women Entrepreneurs Council (WEC) meetings were hosted by the Chambers of Commerce and Commodity Exchange of Turkey (TOBB) on 23-24 December, 2009 in Istanbul. Important decisions of the meetings of ECO-CCI include, setting up a Working Group to follow up ECOTA implementation, offer by Iran and Turkey on capacity building of Member States in the development of Organized Industrial Trade Zones, establishing Business Development Centres and hosting Trade Fairs/Product Displays and Customs cooperation. Business leaders underlined the urgency of developing a Multi dimensional Regional Trade and

Investment Strategy to prepare the Member States for establishment of a free Trade Area by 2015. A proposal for setting up an ECO Joint Investment Company was also supported by the delegates.

Agriculture

ECO region enjoys a wide range of agro-ecological zones favorable for crop and livestock diversification. Agriculture provides employment for over 40 percent of economically active population of the region. Over the past decade, there has been essential improvement in food production in ECO countries. Geographical location of ECO countries, which is in proximity to food importing economies, raises their competitiveness in regional markets.

Cooperation in ECO on agriculture is well structured and organized. Four ECO Ministerial Meetings on Agriculture were held at which the ECO Regional Programme for Food Security (RPFS) was in prime focus. The programme is being assisted by FAO. It consists of 9 regional components and the programme on Community Based Food Production in Afghanistan.

The 4th Ministerial Meeting on Agriculture held on September 8-10, 2008 in Baku, considered several concept papers: on Coordinated Research, Wheat Improvement, Participatory Management of Rangelands, Natural Research Base in Central Asia, Establishment of Genebank, Network for Coordinated Efforts among ECO Countries for Efficient Conservation, Sustainable Use of Plant Genetic Resources, Integrated Pest Management of Sunn Pest in West and Central Asia.

The ECO requested FAO to develop detailed project proposals on the components initiated on: seed supply (2nd Phase), wheat productivity improvement, rangeland management, establishment of Gene Bank, agricultural trade promotion. These sought donors' financial assistance. The new projects on: Seed Exchange Programme, Breeding of Highly Productive Saanean Goats, especially in Afghanistan, were proposed for implementation. The project on Strengthening Seed Supply in the region has been developed by FAO and submitted to the European Union (EU) for financial assistance. Contacts with potential donors will be intensified during 2010.

The 20th RPC has elected Republic of Turkey as Coordinating Country for implementation of ECO Regional Programme for Food Security (ECO-RPFS). Coordination Meeting on implementation of RPFS is expected to be held on May 22-23, 2010 in Turkey, to discuss the mode of RPFS implementation and establishing the Regional Programme Coordination Unit. Turkey has pledged FAO Sub-regional Office in Ankara its contributions in this regard.

Strengthening regional seed supply is most advanced project under RPFS. Early in 2009, the Technical Cooperation Programme (TCP) worth of 400,000 USD was implemented successfully in cooperation with FAO. The ECO Seed Association was established in Turkey. The 1st ECOSA International Seed Trade Conference (ECOSA-2009) was held in December 2009. Over 230 participants attended it. To this end, the

2nd ECOSA International Seed Trade Conference will be held on October 28-31, 2010 in Istanbul. The General Assembly Meeting of the ECOSA will be held in Kabul in 2010.

Training courses will be conducted by ECOSA in collaboration with ECO. Workshops/events on enhancing Seed Exchange and Trade in the region and international seed markets will be conducted by ECOSA jointly with ECO. IDB agreed to provide financing for the activities.

The ECO Center for Efficient Utilization of Water will be in Pakistan. IDB has recently approved under the RPFS Pakistan's national project on water management. The Bank agreed to extend financial support to arrange the Working Group Meeting scheduled for August 2-4, 2010 in Islamabad to discuss issues of the establishment of the Center.

During 2010, ECO plans to fully operationalize ECO Regional Centre for Risk Management of Natural Disasters (ECO-RCRM) based in Mashad. The Agreement on Use of Feasibility Study Fund has been drafted and sent to concerned authorities of the Islamic Republic of Iran for signing. In this respect, closer cooperation with WMO and FAO is being sought.

The 2nd Meeting of Heads of Meteorological Organizations will be held in Turkey in 2010. Establishment of ECO Permanent Commission for Prevention and Control of Animal Diseases (ECO-VECO) was priority in 2009. Subsequently, the 2nd ECO Meeting of Heads of Veterinary Organizations held on April 20-21, 2009 in Antalya has finalized the Statute on the Establishment of ECO Permanent Commission for Prevention and Control of Animal Diseases (ECO-VECO). Location of the Commission will be identified at the 3rd Meeting of ECO Heads of Veterinary Organizations scheduled for 2010 in Iran.

The 2nd Meeting of National Focal Points of ECO-ABN will be held on 22-23 May, 2010 in Iran to discuss the issues of establishment of ECO Agricultural Bio-technology Network (ECO-ABN). Turkey has drafted the Plan of Action for Development/Harmonization of Bio-Safety Regulations.

Industry

Availability of skilled manpower and rich natural sources in ECO countries indicates at huge potential and industrial opportunities in the region.

During 2009, cooperation on Nanotechnology Network has gained momentum. Establishment of the Network was approved by the 18th RPC Meeting held in March 2009 in Tehran. The ECO-NANO website was launched in May 2009 to inform the region about activities in this domaine.

ECO Feasibility Fund has allocated US$ 50,000 to implement the initiative of Iran's Nanotechnology Initiative Council (INIC). The 1st Steering Committee on establishment of ECO Nanotechnology Network was held on 5 November, 2009 in Tehran on the sidelines of the International Exhibition on Nanotechnology (4-8 November, 2009). The Meeting approved joint projects. The meeting considered the Guidelines of Regional Cooperation and Initiatives for Training Workshop and Seminars and Publications.

The 4th Meeting of the Heads of Privatization Administrations and 3rd HLEG Meeting were held in Baku on April 20-22, 2009. Launching ECO website on Privatization has been initiated in 2009. It is expected to be finalized by April 2010. Turkish Privatization Administration is assisting in this matter.

The 3rd Workshop on privatization was held on 11-12 November, 2009 in Tehran. Iran's best practices in the field of privatization were discussed among other experiences of ECO countries. Such themes as Divesture Schemes, Privatization Methodologies, Company Assessment Models and Evaluation of Share Values were deliberated in detail.

The 2nd Steering Committee Meeting on Entrepreneurship and SME Development was held on 26-27 October, 2009 in Lahore, Pakistan. The Meeting discussed latest development and progress on cooperation areas and agreed on the following project proposals: *ECO SME Fair Network*, *Digital Information Exchange Network for ECO (IDENE).* A workshop on *"Best practices for SME Cluster Development"* was proposed for conducting in 2010. Member States were requested to consider possibilities to establish industrial estates in their cross border cities for inviting/facilitating neighboring ECO countries. The mode of exchange of SME experts/staff among ECO Member States will be formulated. Establishment of SME Fund will be expedited.

Training workshop on "Best Practices of Turkish Small and Medium Industry Development Organization (KOSGEB)" was held on 13-15 October, 2009 in Ankara. Participants from ECO Member States exchanged information and experiences on SMEs.

The 19th RPC Meeting held in 2009 welcomed the offer of Kazakhstan to establish ECO Representative Office for Development of Science and New Technologies and related activities in Almaty. The Office will align in its activities with similar ECO initiatives such as ECO Technology Transfer Centre, ECO Nanotechnology Network and ECO Science Foundation. The 18th COM (March 2009) mandated the CPR to work out details of establishment of the Office. The Working Group will consider the modalities. The office is expected to be launched in 2010.

The activities on Standardization, Accreditation, Conformity Assessment and Metrology as well as Technology Transfer and Management; Industrial Property Rights are underway. The new training program on systems development for SMEs have been followed up by ECO Secretariat jointly with IDB and Colombo Plan.

Tourism

The 2nd Ministerial Meeting on Tourism and the 4th High Level Expert Group Meeting were held on October 2009 in Antalya, Turkey. Delegates from Member States reviewed the progress on tourism and deliberated on how to help the region to benefit from existing potentials in this sector. The ECO Tourism Promotion Fund received support from Member States. The 1st Meeting of its Board of Trustees is to convene to establish operational procedures. The Great Silk Road was proposed for revival in the form of a route with a chain of hotels and handicraft shops. The ECO Secretariat is following the implementation of the ECO Plan of Action on Tourism.

Energy

The 17th RPC meeting (February, 2007) recommended the extension of the existing (2001-2005) Plan of Action for Energy/Petroleum cooperation up to year 2010. It requested the Secretariat to continue consultation with Member States to prepare the case for decision by the 2nd ECO Ministerial Meeting on Energy/Petroleum. The 18th RPC was informed that the Secretariat had held consultations with the Member States on the extension (to the year 2010) of the existing Plan of Action for Energy/Petroleum Cooperation, as advised by 17th RPC. The 18th RPC agreed on the extension of the existing Plan of Action to 2010. The general objectives of the Plan are to promote energy cooperation in the region, develop ways and means to expand sustainable development and encourage efficient use of indigenous energy resources for fuel and power generation. These issues will be discussed the 2nd Ministerial Meeting on Energy/Petroleum in 2010 in Dushanbe, Tajikistan. The Plan of Action would be on its agenda for decision to extend.

Interconnection of power systems was an important ECO energy project. Since 2005, NESPAK-Consultant (Pakistan) was engaged in the feasibility study on Interconnection of ECO power systems. Due to lack of satisfactory progress, in December 2008 it was agreed to terminate the said feasibility study project. In pursuance of para 140 of Report of 19th RPC the NESPAK-Consultant utilizing available data of Iran, Pakistan and Turkey prepared a Technical Study Report. This Report was sent to concerned Member States for review and comments. Turkey has presented its views. Iran's views are still awaited.

The Secretariat contacted the World Bank on a Study on Regional Energy Trade. This focused on a workshop (November 2008, Almaty), which was the second in a series. The workshop was attended, beside ECO countries, by representatives of the World Bank, EBRD, Inter Governmental Council Secretariat of Central Asia South Asia Regional Electricity Market (CASAREM), and International Finance Corporation (IFC). The participants expressed interest in the WB study "South Asia: Policy Paper for Regional Energy Trade, Trading Arrangements and Risk Management in International Electricity Trade". The workshop stressed the need for power trade with the eastern cluster of ECO countries and beyond. Such countries faced more energy deficits and had greater demand complementarity of a seasonal nature.

The Report titled "Trading Arrangements and Risk Management in International Electricity Trade, October 2008" prepared under Energy Sector Management Assistance Programme (ESMAP) of World Bank for ECO member countries, was circulated to all ECO Member States in January 2009. Discussion of the above Study and related issues, will be part of the next joint ECO/WB Workshop.

Since the 1st Ministerial Meeting on Energy/Petroleum was held almost 10 years ago (November 2000, Islamabad). As the implementation of the Plan of Action for Energy/Petroleum Cooperation in ECO Region 2001-2005 was extended up to 2010 by 18th RPC, it will require a review. In this view, it necessary to hold a High Level Expert Group meeting before the Ministerial Meeting scheduled in Dushanbe. The 139th CPR meeting held on 15 September 2008 decided that before holding the 2nd Ministerial Meeting on Energy/Petroleum, it may be necessary to hold a High Level Expert Group (HLEG) meeting. The proposals from the Member States to host the meeting are awaited.

It is necessary that the 2nd ECO Ministerial meeting on Energy/Petroleum be held with no delay. Tajikistan offered to host the meeting in second half of September, 2010. The exact date for the meeting is being finalized.

To facilitate regional power trade and interconnection towards enhanced energy security and sustainable development, the Secretariat has been on the process of establishing of the interregional Working Group on Power Trade and Interconnection led by ESCAP and ECO, with participation of ASEAN, South Asian Association for Regional Cooperation (SAARC), PIF. The 11th Consultative meeting among Executive Heads of Sub-regional organizations and ESCAP (May 2007, Almaty) approved, in principle, the Terms of Reference (TOR) of the above Working Group. According to the TOR, the Sub-regional organizations will have to designate appropriate representatives to that Working Group. The Secretariat is pursuing, in collaboration with UN ESCAP the convocation of its 1st meeting in 2010.

Training Courses on Energy Efficiency and Conservation were on since 2002. Held under the auspices of the Turkish National Energy Conservation Center (NECC), these were attended by 59 engineers from the ECO countries. The last one was conducted on 25 May – 5 June 2009 in Ankara. The courses covered a broad range of fields such as energy management, energy audit, and economic analysis, energy efficiency on steam systems, electricity and lighting. The 9th International Training Course for Energy Managers is scheduled for 7-18 June 2010 in Ankara.

During the 20th RPC meeting, Iran proposed to hold three workshops parallel in time on ‘Processing of Heavy Cuts’, ‘Petroleum Products’ and ‘Refining Processes of Petroleum Products’ is scheduled on 22-28 May, 2010. Taking into account the importance of development of Renewable Sources of Energy, the Secretariat formulated formal proposals. While considering them, the 15th RPC meeting (Tehran, 2005) recommended establishing an ECO Working Group on New and Renewable Sources of Energy (NRSE). The 2nd ECO Workshop on Renewable Sources of Energy was held in Ankara, Turkey on 30 September – 1 October 2009.

A Regional Workshop on Development of Hydropower Plants was held on 9-12 November, 2009 in Tehran and Esfahan. The Regional Centre on Urban Water Management – Tehran in cooperation with Iran Water and Power Resources Development Company and ECO Secretariat hosted the event. The Workshop concluded that Member States should devote their resources to utilize the Hydropower sources of energy which were environment friendly. Establishment of the Regional Center on Water in Iran was among the recommendations of the Workshop.

The 20th RPC meeting welcomed readiness of Iranian authorities to host the 1st meeting of ECO Working Group on NRSE. The 1st Meeting of ECO Working Group on New and Renewable Sources of Energy will be held in 2010 in Tehran.

Minerals

The 18th RPC endorsed the Report of 1st Meeting of Heads of Geological Survey of Member States (Tehran, 30-31 May, 2007), for the establishment of ECO Geosciences Database and compilation of a Mineral Distribution Map (MDM) of the ECO Region. The contract was signed in February 2009. The scope of the contract includes two stages (Pre-feasibility study and Specifying the general and specialized databank). An amount of US$350,000 was allocated by Geological Survey of Iran to establish the initial phase of the ECO Geosciences Data Base. An amount of US$50,000 is to be provided from ECO FSGPF. Duration of the contract is 9 months. In December 2009, the project was completed and the feasibility study Report was circulated to Member States.

Environment

The 9th ECO Summit (Baku, 5 May 2006) expressed a deep concern over a continued degradation of environment and underscored the need for early implementation of the ECO Plan of Action. The 3rd ECO Ministerial Meeting on Environment (Almaty, 30 June 2006) extended the Plan of Action up to 2010. The Secretariat will prepare a regional Report for circulation to member states and submit it to the Working Group Meetings on Environment as well as the Ministerial Meetings on Environment for consideration.

The 20th RPC Meeting emphasized early establishment of the Institute of Environmental Science and Technology (IEST). The Council took note of the information that Iran would provide nominations of three candidates for the post of the President of the Institute shortly as per decision of the 153rd Meeting of CPR.

Upon approval of the 150th Meeting of CPR as endorsed by the 20th RPC, Azerbaijan was selected as Coordinating Country for implementation of ECO Plan of Action on Ecotourism. Azerbaijan offered to host the 2nd Experts Group Meeting on Ecotourism back to back with the “International Ecoregion Conference on assessment bases of the Environmental, Economic and Cultural Benefits of Ecotourism” to be held in Baku on 10-12 June 2010. The Secretariat in coordination with the host authorities has prepared and circulated working papers to member states on 29 April 2010.

The Secretariat has been issuing the ECO Bulletin on Environment since 2005. The first 7 issues were published in 2005-2009. The eighth issue was published in January 2010. Member states have been requested to regularly submit articles for the Bulletin. All the issues are available on the ECO Web site. The Secretariat is to publish the 9th issue of the Bulletin in late 2010.

The 20th RPC requested Iran, Turkey and Turkmenistan to finalize programmes of the meetings on biodiversity and inform the Secretariat of the details at earliest. The Council strongly urged the remaining Member States to indicate their willingness to host meetings on Biodiversity and also called for expediting provision of particulars of their national focal points on that subject, to the Secretariat. As per Calendar of Events on Biodiversity, the Pre-COP Meeting on biodiversity was held in Antalya on 3-4 May 2010. In this meeting, the representatives of the member states were requested to agree hosting an event scheduled in the calendar. Thus, Kyrgyzstan, Pakistan and Tajikistan also announced their readiness to host an event in a specified field.

The 20 RPC underlined the need for holding the 6th Meeting of the ECO Working Group on Environment (WGM) prior to the 4th Ministerial Meeting on Environment (scheduled to be held in Iran in 2010) to prepare its agenda and make necessary arrangements. The Council strongly urged all Member States (excluding Iran) to consider hosting the 6th WGM on Environment in the first half of 2010 and inform the Secretariat of their suggestions shortly.

The 20th RPC appreciated Iran's offer to host the 4th Ministerial Meeting on Environment to be preceded by the Senior Officials Meeting in Tehran and took note that Iran agreed to hold this meeting in mid-November 2010 if the 6th WGM be held prior to June 2010. While requesting Iran's authorities to finalize arrangements for the meetings, the Council emphasized that Member States take part in the meeting and make timely confirmation to the Secretariat of their participation. Request has been made form all member states to host the WGM by the Secretariat and their response is being awaited.

Human Resources and Sustainable Development and MDGs

The 1st and 2nd Meetings of the ECO High Level Experts Group (HLEG) on Human Resource Development (HRD) and Millennium Development Goals (MDGs) were held in Ankara and Islamabad on December 19-20, 2006 and February 11-12, 2008, respectively. The participants discussed the progress made on HRD and recommended that MDG goals, namely, 4 (Reduce Child Mortality), 5 (Improve Maternal Health), and 6 (Combat HIV/AIDS, Malaria and other diseases) be prioritized. During the 19th RPC Meeting, the Ministry of Health and Medical Education of Iran offered hosting the 3rd MDGs meeting in January 12-13, 2009 in Tehran.

The ECO Secretariat prepared comprehensive Terms of Reference (TOR) for preparations of the Regional Report on Health related MDGs. It **c**ommunicated the ToR to relevant internatioal organizations, including United Nations Population Fund (UNFPA), Word Health Organization (WHO) and The United Nations Children's Fund (UNICEF). UNICEF agreed to allocate 40,000 US Dollars for this purpose. Six university professors and researchers were selected as Consultant Team through open competition. Fact finding visits to Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan and Turkey were made. The Consultant Team presented a consolidated report at the 3rd HLEG Meeting on MDGs for views/comments of member states. The 20th RPC requested concerned officials of Member States for views due by end of April 2010.

The Secretariat resumed its previous works on ECO Human and Sustainable Development Report. The UNDP agreed to collaborate on this matter. The long-term objectives of the report are that the Regional ECO HDR will serve a tool to provide the ECO region with effective HD-monitoring to act as warning system to monitor the socio-economic situation.

According to the Treaty of Izmir (Article II-a), one of the ECO's basic objectives is to promote conditions for sustainable development and raise standards of living and quality of life in the member states through mobilization of economic and social potential of the region. In this view, a number of high level events were held on health. Among these are: the 1st HLEG Meeting on Avian Flu, 1st HLEG on Drug Regulatory Authorities, 1st Meeting of Heads/Authorities of Blood Transfusion Organizations and 1st Study Tour for Health Authorities of ECO member states.

The 2nd HLEG Meeting on Human Resource Development and Millennium Development Goals (Islamabad, 11-12 February, 2008) discussed the progress made on HRD and recommended that three health related MDGs, namely, MDG goals 4 (Reduce Child Mortality), 5 (Improve Maternal Mortality), and 6 (Combat HIV/AIDS, Malaria and other diseases) be prioritized among ECO activities.

The 3rd HLEG Meeting on MDGs on the three health related MDGs will be hosted by Iran. The 19th RPC Meeting approved the proposal to organize the ECO Health Ministerial Meeting 2009/2010. During the 10th ECO Summit, President of Azerbaijan offered to host the ECO Health Ministerial Meeting. The meeting was held on 5 February 2010 preceded by Senior Officials Meeting on 4 February 2010 in Baku, Azerbaijan. Health Ministers/Representatives from Afghanistan, Azerbaijan, Iran, Kazakhstan, Pakistan, Tajikistan and Turkey participated in it. Representatives of such international organizations as UNFPA, WHO, UNICEF, World Bank, Global Fund and International Red Cross also attended the meeting. The participants agreed to enhance cooperation particularly on health related Millennium Development Goals (MDGs), Blood Transfusion and Pharmaceuticals. The meeting adopted the Baku Declaration, which identified the main priority areas for health cooperation among the Member States. The Republic of Kazakhstan would host the Second Meeting of the ECO Health Ministers in 2011.

Cooperation on pharmacy: the 1st HLEG Meeting of ECO Drug Regulatory Authorities (HLDA) was held at ECO Secretariat Tehran on 13-15 November, 2007. The meeting aimed at exploring the possibility of establishing a Network of the Drug Regulatory Authorities of ECO Member States and identifying activities/programs for regional cooperation in the field of drug regulation. It was decided to establish the ECO Drug Regulatory Authority Network. Training workshops on the following subjects were suggested during 2009: (i) Quality control of pharmaceuticals, (ii) Pharmacovigilance, (iii) Drug registration and licensing, (iv) Counterfeit Medicines Current Good Manufacturing Practices (CGMP). The Ministry of Health and Medical Education of the Islamic Republic of Iran expressed its readiness to host two workshops on PharmacoVigilance and Drug Quality Control.

The ECO Workshop on PharmacoVigilance was to be held on 10-12 November 2008. Iran's health authorities offered to host the Workshop on Drug Quality Control on 21-23 February 2009. The Ministry of Health and Medical Education of the Islamic Republic of Iran has proposed to convene the above mentioned Workshops (back-to-back) on 19-21 July 2010 in Tehran.

The 19th RPC Meeting proposed to establish a web page for exchanging information among national focal points and relevant authorities of member states on issues of health related MDGs. The Islamic Republic of Iran was selected as Coordinating Country to arrange the ECO Drug Regulatory Authority Network. Iranian authorities will ensure that the framework of the web page be a part of the Network. The modalities of the Network with identify the structure, objectives, activities, and budget details.

The 2nd HLEG Meeting of ECO Drug Regulatory Authorities was proposed to be held in Pakistan in the 2nd half of 2010 in Karachi**.** The proposal was voiced during the 1st HLEG Meeting of Drug Regulatory Authorities (Tehran, 13-15 November, 2007).

The 1st Study Tour for Health Authorities of ECO member states was organized in close collaboration among ECO, United Nations Population Fund (UNFPA) and Ministry of Health and Medical Education of Iran on 9-12 December 2007. It was aimed at exchange of information and best practices among health authorities of ECO member states. The Tehran University for Medical Sciences (TUMS) proposed to hold short term training courses for health authorities of member states for the degree of Master's of Public Health (MPH). Iran offered to hold the Training Course on MPH in 2010.

The outline of the Training Course for Master's of Public Health for ECO member states was prepared by the Tehran University of Medical Sciences. The outline included objectives of the course, admission requirements and detailed curriculum of the course. Turkey offered to conduct the 2nd Study Tour in 7-11 June 2010.

The 1st Meeting of Heads of Blood Transfusion Organizations/Authorities of ECO Member States was hosted by the Iranian Blood Transfusion Organization (IBTO) at the ECO Secretariat, Tehran on 23-24 June, 2008. The meeting recommended setting up the ECO Blood Transfusion Services Network. It would promote cooperation of national blood banking and transfusion services. It would also cover all aspects of safety and availability of blood and blood components to improve quality of life and healthcare in the member states; promote communication and collaboration between existing transfusion services and facilitate technical collaboration through exchange of information, joint training courses and other means.

The 19th RPC Meeting adopted draft proposal prepared by the Iranian Blood Transfusion Organization stating the aims, objectives and work of the ECO Blood Transfusion Services Network. It requested member countries to comment on the draft proposal so that Network could start its operations. ECO Secretariat has recently signed an Agreement with the Iranian Blood Transfusion Organization (IBTO) for establishing the Network. The IBTO with financial support of ECO (US$ 33,000) will establish the Network by the end of August 2011.

The 2nd Meeting of Heads of Blood Transfusion Organizations/Authorities of Member States of 26-27 April 2010 in Turkey was organized jointly by the Ministry of Health of the Republic of Turkey and the Turkish Red Crescent Society at Ankara. Delegates from the Islamic Republic of Afghanistan, Republic of Azerbaijan, the Islamic Republic of Iran, the Islamic Republic of Pakistan, the Republic of Tajikistan, the Republic of Turkey and the Republic of Uzbekistan participated in the event. The issues relating to Blood Transfusion Network, National Centralized Blood Systems, Blood Safety, Quality Control and Quality Management of Blood, Voluntary Donor Recruitment and Retention, Plasma Fractionation, It Application in Blood Transfusion were discussed.

Pakistan has offered to hold the Consultative Workshop on Blood Safety in Pakistan in Pakistan in year 2011. Iran's Blood Transfusion Organization will host workshops on Voluntary Donor Recruitment and Quality System in Blood Transfusion during 10-12 May 2010. The Workshop on Prevention of Osteoporosis has been scheduled for 2010.

Project and Economic Research & Statistics

The events scheduled for economic research, projects and statistics for the period 2009, have fully been implemented. For references, please consult the ECO Event Calendar available on ECO website.

Project Monitoring System

To implement the recommendations of the 19th Regional Planning Council of ECO, the Secretariat established a Project Monitoring Group (PMG) on 2 December 2009. It was designed to ensure effective coordination internally and between ECO and international partner organizations on project implementation. Based on regular monitoring by the PMG, the Secretary General updates the ECO decision making bodies on progress on ECO projects. To ensure effective knowledge sharing in member states on project related issues, the Secretariat, in cooperation with the UNDP Office in Tehran, conducted the training on project monitoring on 24-25 February 2010. It was aligned with the reviewed IT techniques for project implementation applied in the UN system.

ECO Feasibility and General Purpose Fund is being utilized to cover the cost of the pre-feasibility and feasibility studies for regional projects. This Fund has been utilized, among other things, for the establishment of the Nanotechnology Network for ECO Countries, ECO Agricultural Biotechnology Network, Implementation of the Transit Transport Framework Agreement TTFA). If required, the ECO Council of Ministers, upon the request of the Secretary General, can consider supplementary contributions to sustain operations of the Fund at satisfactory level. The Fund is operated by the Secretary General based on decisions of the Council of Permanent Representatives of ECO. The Secretary General is entitled to seek assistance from Member States, donors and international organizations in securing additional funds for the pre-feasibility and feasibility studies and projects.

As a result of regular project monitoring, the ECO List of Projects is updated twice a year, by 30 June and by 31 December. It is presented to the PMG, and circulated to ECO Member States for information and actions. The Summary of ECO Projects was presented to the 1st Meeting of the ECO Project Monitoring Group on 27 December 2009. The updated versions of the List of ECO Projects were circulated on 31 June 2009 and 30 December 2009 to Member States prior to consideration at RPC.

Project implementation guidelines and modalities have been updated, in compliance with the recommendations of the 17th and 18th RPC. In this regard, the Functional Modality of Feasibility Study Fund of ECO has been reviewed. The updated issue has been incorporated in the ECO Modality of 2009. The publication was circulated to Member States on 26 June 2009. The “Guidelines for ECO Projects” are available on ECO web under sub page “PMG”.

ECO’s Special Support Fund for Reconstruction of Afghanistan

ECO’s participation in the reconstruction of Afghanistan was agreed on at the 12th ECO Council of Foreign Ministers’ meeting. This was also supported by the 7th Summit of Heads of ECO States Meeting held on 14 October 2002 in Istanbul, Turkey. The 14th COM (Dushanbe, September 12, 2004) approved the Modalities for the Establishment of ECO Special Fund for Reconstruction of Afghanistan. The Secretariat was instructed to open an account and start necessary arrangements. Voluntary contributions from member states are being received.

The Secretariat, in coordination with the Afghan authorities, has short-listed several projects and submitted them for CPR’s approval. The following four projects have been approved: (i) Construction of the Deh Mazang Public Park and Rehabilitation of Kabul Zoo. Nearly 80 percent of project works have been completed and the 3rd installment has been released by Secretariat to the Contractor as per Appendix C.5. of the Contract, the fourth installment will be released upon submission by Contractor of requisite documents certified by Ministry of Foreign Affairs of Afghanistan. The project on the Construction of a Maternity Hospital in the Faryab Province was approved by

131st CPR (9 January 2008), and (iii) the project on the Construction of a School in the Bamian Province was approved by 139th CPR (15 September 2008). With respect to above two projects, the Secretariat has requested concerned authorities to expedite respective Draft Agreements. Their response is still awaited. Two phases of the project on the Construction of Block ‘A’ of the Ministry of Rural Rehabilitation Training and the Research Center in Kabul have been completed. The 1st installment was released on 18th March 2010; the second will be released upon receipt of certificate of satisfactory completion of 40 percent of project works.

ECO Statistical Network

The 1st HLEGM of ECO National Statistical Offices held on 26-28 October 2008 in Tehran considered the establishment of the ECO Statistical Network, i.e. ECOStatNet. The proposal to develop such Network came from the Statistical Center of Iran (SCI). The 6th Meeting of ECO National Focal Points on Economic Research and Statistics of 7-18 November 2008 in Ankara considered the proposal in detail. The recommendations of the 19th RPC held of 19 January 2009 were - to establish the ECOStatNet. The 149t Meeting of the Council of Permanent Representatives of June 7 2009 has approved the technical modality of the ECOStatNet. The information technology design and configurations of the Network have been presented by the SCI Team on 17 January 2010 at Secretariat. Further, the 20th RPC meeting of 16-17 February 2010 in Antalya welcomed a detailed Technical Report on upcoming launch of the Network. Participants of the 20th RPC Meeting appreciated the detailed report and recommended that launch of the network be effected.

ECO Statistical Compendium composed of statistical tables of Member States has been compiled and posted on ECO website on 2 March 2009. The webdata under “Statistics” have been updated and came available on ECO Web since 7 March 2009.

ECO Roster of Leading Experts\Statisticians has been compiled and posted on the ECO Web on 17 July 2009. Deserved experts from this Roster have been involved in various activities in ECO during 2009. The concept papers of the experts selected from the Roster have been included in ECO publications.

The List of ECO Consulting and Engineering Companies has been circulated to Member States for updates. Upon receipt of updates, the publication will be released.

ECO Annual Economic Report

The ECO Economic Report is prepared, annually, and is circulated to Member States by the end of June, yearly. The report provides the analysis of the macro-economic developments both in individual ECO member countries and in the ECO region. It is based on statistical and economic data provided by Member States. Wherever deemed necessary, the data is derived from international financial and economic sources. The draft report is circulated to member states for verification prior to public issuance. Positive feedbacks from several member states regarding content of the publication have been received during 2009.

Publication of ECO Economic Journal

The 18th RPC meeting recommended to publish the ECO Economic Journal. To implement this recommendation, the Secretariat prepared the draft Terms of Reference (TOR) of the Journal for consideration by the 6th Meeting of ECO National Focal Points on Economic Research and Statistics (16-18 November 2009). The 6th NFPM unanimously approved the ToR for the Journal, and requested the Secretariat to prepare the first issue.

The Editorial Board of the journal comprising prominent researchers from 6 member states has been established by December 2009. It is designed to maintain links with leading regional research institutions. The pilot issue of the ECO Economic Journal was prepared and submitted for consideration of the 20th RPC held on 16-18 February 2010, Antalya. The latter has welcomed the issue and recommended it for publication. The 1st Meeting of ECO Leading Economic Research Institutions of 1-2 March 2010 in Tehran approved the Journal for publication.

Capacity Building Program

Capacity building on statistics in Member States facilitates ECO National Statistical Offices (NSO) in sharing expertise and information within the region. To this end, as approved by the 19th RPC Meeting (11-15 January 2009), the ECO jointly with the Statistical Center of Iran has successfully conducted the 1st Training Course on Application of Geospatial Information System (GIS) for Presenting Statistical Data for the ECO Countries on 19-21 April 2009, and also, the Workshop on National Accounts for ECO Member Countries on 17-20 May 2009. These activities have involved participation of over 30 Senior Level Experts from Member States.

Natural Disaster Management

Recognizing the high level of seismic hazard and the prevalence of natural disasters in the ECO region, the 10th ECO Summit held in Tehran in March 2009 underlined the need for regional cooperation in management of natural disasters, and called for effective programmes and projects on immediate response, emergency relief and rehabilitation.

The main objectives of the Fourth ECO International Conference on Disaster Risk Management held on 8-10 October, 2009 in Dushanbe, hosted by Committee for Emergency Situations of Tajikistan, were to discuss problems of cooperation and coordination in the ECO region to increase investments in risk reduction, to build safer schools and hospitals and adapt to climate change. These included sharing experiences and initiatives of other countries of the ECO region.

The issues relating to preparation of the Global Assessment Report (GAR), current initiatives/activities on disaster risk management (DRM) in ECO region, national Coordination Mechanisms/National Platforms, Safer Cities and Seismic Risk Reduction and Climate Change Adaptation were discussed in the Conference.

The ECO delegation and ECO member states namely Afghanistan, Iran, Pakistan, Tajikistan and Turkey participated in the Second Session of the Global Platform held in Geneva in June 2009. The Workshops on "ECO School Earthquake Safety Review" in June 2006 in Istanbul, a Round Table Discussion on safety of schools took place in Dushanbe, Tajikistan on October 09, 2009, back to back to the Fourth ECO International Conference on Disaster Risk Management. One of the key recommendations of the ECO Conference was to make school safety a priority for the coming years. This is fully in line with the recommendations of the Second Session of the Global Platform held in Geneva in June 2009.

A Regional Conference on Seismic Risk Reduction dedicated to 60th anniversary of Hoeet Earthquake (1949) was held in Dushanbe-Tajikistan on 09-11 July 2009. Representatives from the national governments of Central Asian countries, as well as the leading experts and representatives of the ECO countries (namely, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey and Uzbekistan), international/regional organizations and NGOs attended the Conference.

To enhance cooperation on disaster risk management between ECO and UN International Strategy for Disaster Risk Reduction (UN/ISDR) and the UN Office for Coordinating Humanitarian Affairs (UN/OCHA), on 3 December 2009, the ECO delegation visited OECD Headquarters in Paris to finalize the international study on improving school earthquake safety in ECO region. A series of meetings with OECD officials were held. The development of a Policy Framework and Action Plan and also the initiation of national self-assessment questionnaires and demonstration projects in some ECO member states were discussed. Cooperation with OECD builds on the guidelines for school safety, which were adopted by OECD in 2004 for all OECD countries. The OECD officials demonstrated cooperation and interest in the joint implementation of the project. The ECO will benefit from solid experience of OECD in school earthquake safety. During 2010, the UN/OCHA is planning to organize two events: on Drought Management and Climate Change and Natural Disasters.

Regional Institutions and Specialized Agencies of ECO

ECO Cultural Institute (ECI)

The establishment of the ECI Council of Permanent Representatives (ECI-CPR) came to be an important milestone event during 2009. The ECI-CPR has become functional. It will meet on monthly basis to consider issues on behalf of the ECI BOT. The allocation of US $1million out of US$2 million pledged by the Islamic Republic of Iran to the ECO Cultural Trust Fund is believed to give a fresh impetus to ECI activities. To this effect, the institute plans to publish the ECO Tourist Guide-Book in 2010. While participating in the national cultural events of the Member States, it will try to arrange its own cultural sideline events. The First ECO Sports Cup will be held in 2010. The ECI will also focus on Youth and Women Affairs in line with the decisions of the 4th ECI BOT. Annual international festivals in the field of music, theatre and cinema will be arranged for ECO Member States.

ECO Trade and Development Bank (ECO-TDB)

The ECO TDB currently focuses on the expansion of its activities in those Member States that have not joined the bank yet. To encourage more participation of ECO members in bank operations, the 'New Membership Rules' were issued by the Board of Governors of the Bank. ECO-TDB Representative Offices have been established in Iran and Pakistan. The MoU between ECO-TDB and IDB was signed. Work to establish cooperative relations with other financial institutions with the aim of catering for financial needs of the development projects in the region is on.

ECO College of Insurance (ECO-CI)

The College has obtained accreditation of its MSc Actuarial Science degree from the Society of Actuaries, Casualty Actuary Society and the Canadian Society of Actuaries. The College has organized in collaboration with the Central Insurance of Iran short-term courses for professionals in insurance industry. The necessary information about its academic sessions, recognition of degrees and scholarships to the Member States and the Secretariat is circulated to member countries.

The Member States will make necessary arrangements to send their best students to the ECO College of Insurance to avail the 10 graduate/under-graduate scholarships, which were offered by the Islamic Republic of Iran. The IDB has offered to grant 9 scholarships for the MSc Actuarial Science and is finalizing the modalities. The College also plans to initiate academic courses for MBA degree.

ECO Consultancy and Engineering Company (ECO-CEC)

The ECO-CEC provides consulting and other services to Member States. There is a need to fully utilize the extensive potential of the company for the development of the region. The 2nd RPC called on the Member States to facilitate effective participation by ECO-CEC in the bidding process for projects financed from ECO resources and other national projects, particularly through timely exchange of information.

ECO Chamber of Commerce and Industry (ECO-CCI)

The website of the ECO-CCI Women Entrepreneurs Council and development of the Women Entrepreneurs Council has been established in 2009. The Member States may regularly update the relevant information on the web. The MoU between ECO CCI and ICCI has been signed. Promotional activities as envisaged by the MoU have started. Cooperation with the Eurochambres Global Chambers Platform is being seriously considered. The ECO-CCI is currently working on raising awareness on its mission through campaigns, seminars and road shows. These activities aim at projecting regional trade and investment potential of ECO-CCI.

ECO Science Foundation (ESF)

The Secretariat has proposed the date of June 28-29, 2010 to hold the 2nd Group Meeting of ESF at the Secretariat to discuss and finalize the draft basic documents (staff regulations, rules of procedure, budgetary estimates and working formula). Once these documents have been finalized, Pakistan would be requested to host the 1st Board of Trustees Meeting (BOT), which would approve the basic documents of the ESF and operationalize the Foundation.

ECO Educational Institute (ECO-EI)

In 2009, the 1st Meeting of the Board of Trustees of the ECO-EI was poisoned due to lack of quorum. Subsequently, the offer came from the Republic of Turkey to host the event in October 2010.

ECO Reinsurance Company

The Articles of the Agreement of the ECO Reinsurance Company were signed by ECO members such as Iran, Pakistan and Turkey. Currently, the concerned Member States are expediting ratification of the Articles of Agreement of the Company. Upon completion of this process, the Company will start its operations during 2010.

III. Economic Performance in ECO Countries in 2009

Islamic Republic of Afghanistan

Overview

Afghanistan’s real GDP growth in 2008/09 declined to 2.3 percent. In the previous year, the country developed at an impressive 16.0 percent rate. A number of reasons contributed to such slowdown. The main ones were: the consequences of severe droughts, prolonged presidential elections, and security-related expenditures. Towards the year end, the country’s GDP at current prices reached US$10.6 billion and real per capita GDP US$426.

Due to active international donor support, the country’s budget was sustained at comfortable throughout the crisis of 2007-2009. The government, on its part, helped ensure greater aid effectiveness of incoming capital flows. Local authorities focused on estimating real needs in each sector of the economy. Internally available human and physical resources have been re-trained, and necessary installations have been put in place. This was all done to ensure that capital be fully absorbed. The government has identified its priority sectors for 2009-10 to materialize the investments. These included agriculture, energy, transport, communications, health and education.

In sectoral development, local authorities took every necessary step to gradually restore moderate growth in strategic sectors of the economy. Thus, in the telecommunications sector, nearly 5.4 million Afghan residents received easy access to the means of wireless communications. In the energy sector, non-interrupted electricity supplies were provided to nearly 65 percent of individual households, 90 percent of non-residential establishments and 25 percent of households in rural areas. This was done despite recurring security challenges.

In the transport sector, over a million Afghan population living in the Parvan, Baghlan, Kunduz, Takhtar and Badakhshan provinces have accessed the country’s main transport and infrastructure network during 2009. Commuting between Kabul and Kunduz became possible within 6 hours.

In 2009, agriculture held 30.6 percent share of the country’s GDP. Growth in this sector has declined during the reported period. The main reasons behind the setback were: soil degradation, which came as the consequence of constant draughts, high food and fuel prices, and security challenges at fields at harvest times. Against this background, growth in this sector decelerated to 2.6 percent compared to 4.9 percent in 2008.

According to the UN Office on Drugs and Crime, potential exports of Afghanistan's opium have dropped by 10 percent to 3,900 tonnes in 2009. Opium production equaled US$480.0 million, which accounted to 4 percent of licit GDP compared to 12 percent in 2008 and a record 27 percent in 2002.

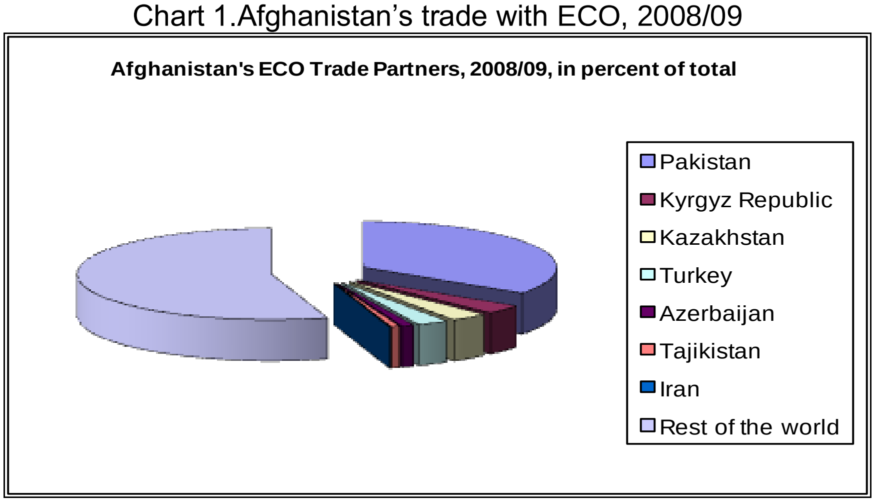
Unlike in agriculture, growth in the services and industrial sectors recorded at 16.0 and 7.0 percent during the reported period. The security situation has heightened its efforts to safeguard harvesting. Such measures resulted in decreasing losses at end of harvesting period.

In spite of hardships created by world's worst economic crisis, the government undertook restructuring of its financial sector. Fiscal measures focused on improving budget administration. Liquidity mass was closely controlled. By the end of December 2008/09, average annual inflation was reduced to minus 4.7 percent as a result of a major re-set in financial sector.

In terms of external position of the country, its current account deficit remained at minimal 1.5 percent of GDP. Exports reached US$2.1 billion in gross. The share of exports in GDP increased to 19.1 percent in 2008/09 against 2008 mark, which was lower. Imports made US$4.6 billion. The trade deficit widened to US$2.5 billion. Major export items, namely, fruits and nuts accounted for 45 percent, carpets 27 percent, and fresh fruits 8 percent of total exports. Major imports came in petroleum and fuel at 18 percent, machinery and equipment 19, metals 14, and food 17 percent of total imports.

Afghanistan's trade with ECO partners accounted for 35.2 percent of its total trade during 2008/09. Within this share, Pakistan contributed to 21.1, Kyrgyz Republic 0.1, Kazakhstan 4.6, Turkey 1.9, Azerbaijan 0.1, Tajikistan 1.3 and Iran 6.1 percent of Afghanistan's intra-trade. With the rest of the world the country traded at 64.8 percent of total.

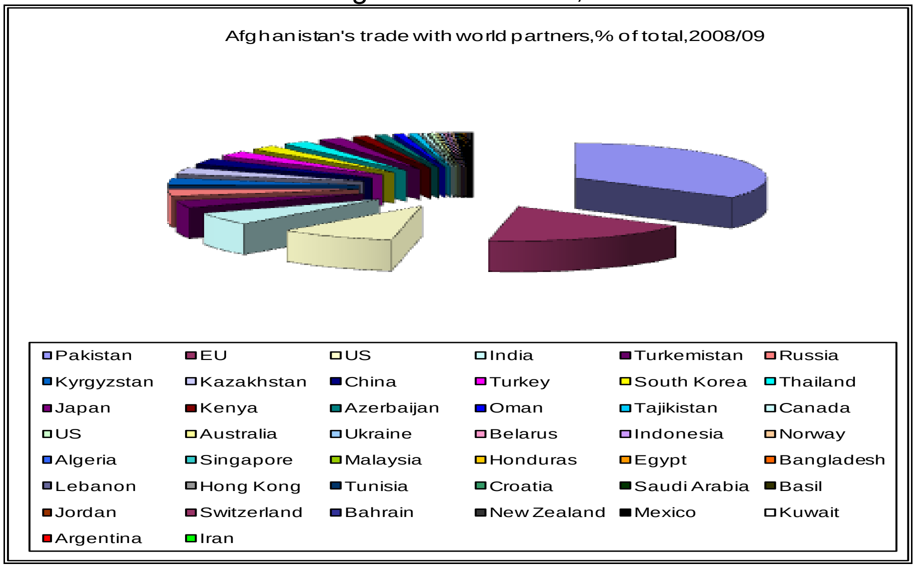
Chart 1.Afghanistan's trade with ECO, 2008/09



Sources: Central Statistical Office of Afghanistan (SCO)

In terms of geographic exposure in 2008/09, Afghanistan's trade was diverse across regions beyond the neighborhood. Trade with EU accounted for 17.8, ECO 35.2, ASEAN 2.5 percent of total. Among other regional partner groups were BRIC, Mercosur and NAFTA.

Chart 2.Afghanistan's trade, 2008/09



Sources: SCO, UNOCD, SESRIC, ASEAN

Donor support was instrumental in many respects. It ensured that the country's gross reserves remained at sufficient level. By the end of 2008/09, these reached US$3,462 million marking 30.7 percent increase compared to the same period in 2007/08.

Having improved tax administration, the government succeeded in collecting the revenue at 15.7 percent[2]. Within such increment, the share of net domestic revenue reached almost 7.1 percent of GDP. In the meantime, expenditures went up to 19.4 percent of GDP mainly due to recurring security challenges. Expenditures related to holding election campaigns during 2009 have largely contributed to general budget increase.

Measures to install a vibrant entrepreneurial private sector have been attempted since long. Subsequently, the country's rating in ease of doing business has improved by 8 basis points within a year's time to 160th. Yet, the economy continued to face severe constraints in creating adequate business environment. Among the impediments were: (i) capacity loss due to theft on electric distribution lines, (ii) low access of small and medium enterprises to microfinance, (iii) limited access of individual households to land, and (iv) infrastructure development inefficiencies.

Outlook: despite acute security considerations, real GDP growth in 2009/10 is forecasted to reach an estimated 4.6 percent. Afghanistan's agricultural sector rates largest in terms of its share in the combined regional GDP. Provided that weather conditions favour the forecasted growth, this sector will increase by 30.6 percent during 2010/11. The services sectors will also grow by over 18.6 percent rate. Restructuring in major sectors of the economy, including energy and mining, would pave the way to growth in services. Rapid economic recovery at 4.6 percent rate during 2009/10 seems

[2] The figure is inclusive of official grants.

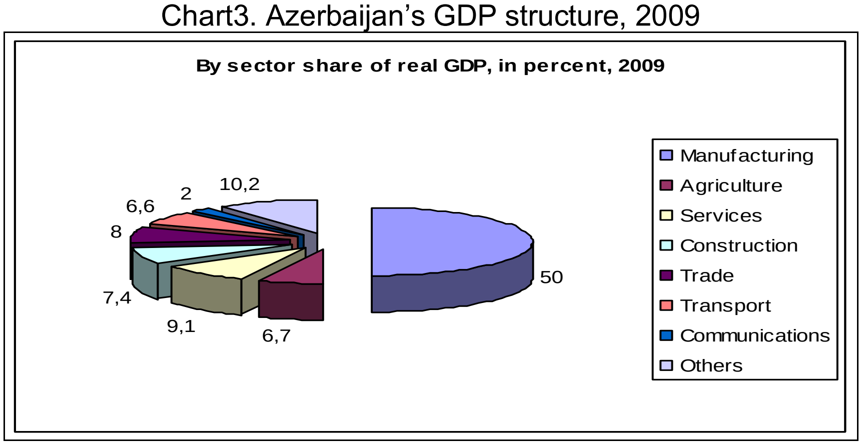
realistic. The impact from restructuring will be seen in increased productivity gains. Establishing the solid manufacturing base for industries is ongoing. Against this end, fostering competitiveness among local companies will perhaps require longer time frame. In the meantime, the projected growth will ensure sustainable development for Afghanistan during the post crisis period. The current plans of international communities foresee waiving off the country's external debt obligations.

Republic of Azerbaijan

Overview

In 2009, Azerbaijan's real GDP grew at 9.3 percent rate, one of the highest in the region. The GDP at current prices reached US$43.0 billion. Weak external demand and lower oil prices compared to their 2008 high levels, contributed to the setback in Azerbaijan's economy. If compared to Azerbaijan's own performance over the past several years, which marked high 21 percent growth rate on average, the downslide of the economy in 2009 was visible. However, vis-à-vis world's growth scale observed during the crisis where some economies downslided to below zero growth rates, Azerbaijan was showing one of the region's highest growth rates. Azerbaijan's non-oil output grew at 3.6 percent against 15.9 percent in 2008. Oil industry recorded 14.5 percent growth.

Chart3. Azerbaijan's GDP structure, 2009



Sources: Statistical Committee of Azerbaijan (AzStat)

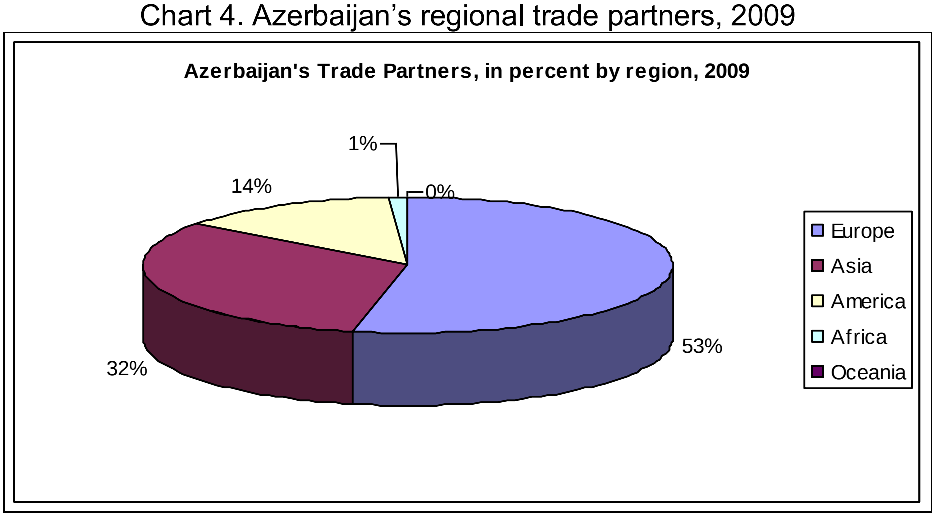
Breakthrough of the non-oil sector was prioritized by the government. At the same time, the services sector marked a 9.1 percent increase. The share of industries in the country's GDP accounted to 50.0 percent, agriculture and fishery 6.7 percent, construction 7.4 percent, trade 8.0 percent, transport 6.6 percent, communications 2.0 percent. The per capita real GDP at US$4,874 was one of the highest in the region during 2009. The minimal wage increased at 8.6 percent reaching US$367. Poverty line indicator for the country of 8.9 million population increased by 2.3 percent to mark the 10.9 percent rating within year 2009. The economy was able to generate 73,800 new jobs, including 54,700 on permanent basis. In terms of its external position in 2009, Azerbaijan was rated by IMF as a net creditor country.

Stable performance of Azerbaijan's national currency, Manat, helped reduce inflation to the low 1.5 percent in 2009 from its high 20.8 percent in 2008. Azerbaijan's Manat is ranked 28th among world's 117 countries with sovereign national currencies. It equaled 0.80 Manat against the US dollar. These achievements came as a result of implementation of large scale reforms undertaken in the financial sector during previous years. Against that end, inflation declined ten times against its 2004-2008 average level. As such, it was third lowest in the region in 2009. Price augmentation on non-food items was by 3.4 percent and services 7.1 percent. Domestic food prices declined by 1.5 percent. Considerable 26.8 percent reduction in money supply played a crucial role in reducing inflation. Unemployment has dropped to 6.0 percent level, which was moderate compared to similar rates across the region. To this end, job generation was recurrent in oil and gas sector. Furthermore, ship industry has also provided new jobs in the course of its technological renovation.

During 2009, the economy had a US$8.6 billion trade surplus. The overall trade turnover reached US$20.8 billion of which US$14.7 billion were exports, and 6.1 billion - imports. The imported goods came mainly in machinery and equipment. These accounted for 34.8 percent of total imports, vehicles 12.8 percent, semiprecious metals 10.8 percent, food items 8.5 percent, chemicals 6.6 percent, and plants 5.1 percent. The content of exports was mainly in: hydrocarbons, minerals, agricultural produce, and means of transportation by sea and air. During 2009, Azerbaijan traded with 137 trade partners. Out of this diverse trade exchange, 53.3 percent accounted for Europe, 32.1 percent Asia, 13.5 percent America, 1.1 percent Africa, and 0.1 percent for countries of Oceania.

Intra-trade with ECO countries stood at US$1,547 million in 2009 accounting for 7.2 percent of Azerbaijan's total trade. Exports equaled to US$453 million and imports US$1,094 million. Intra-trade was in deficit of US$641 million.

Chart 4. Azerbaijan's regional trade partners, 2009



Sources: AzStat

In the industrial sector, the 2009 oil and gas output increased by 8.6 percent compared to the previous year. Hydrocarbons accounted to 75.7 percent of the total industrial output. Towards the year end, 50.4 million tonnes of oil have been drilled marking a 13.7 perent increase in oil prodcution compared to 2008. Nearly 16.3 billion cubic meters of gas were extracted. Within the industrial sector, the share of processing industries accounted for 18.9 percent. This signified the reduction of the economy's dependence on imports of finished goods. Processing in food industry increased at 2.2 percent and leather industry at 5.5 percent.

Generation, supply and distribution of electricity, gas and water was interrupted during 2009. This sector accounted for 5.4 percent of total industrial output produced in 2009. In the same year, production of 17.8 billion kwt/h of electricity reduced by 12.8 percent compared to 2008.

Private sector development was remarkable during 2009. Nearly 80.0 percent of the country's total industrial output was produced by private companies, exceeding the 2008 year level by 13.8 percent. In various sectors of the economy, private companies' participation was varied. For example, in the transport sector, private companies have contributed to 73.3 percent increase of total cargo shift and 83.9 percent of passenger transportation.

In agriculture, the private sector accounted for the entire output, which in 2009 increased by 3.5 percent. Such increase was registered in planting by 4.0 percent, livestock by 2.8 percent compared to the indicators during the same period in 2008.

In communications, nearly 77.3 percent of total services provided in 2009 came from private entities. These have increased at 13.1 percent compared to previous year 2008. The services of telecommunications companies in provision of wireless telephonic connection were recorded at over 70.0 percent of total services provided during 2009. This services sector accounted for 43.3 percent of GDP in 2009.

Industrial construction absorbed 74.1 percent of the country's overall capital investments during 2009. Nearly 1,480 000 square meters of newly built housing was provided to local residents. New schools capable of accommodating 20682 seats opened their doors for children in 2009. Construction of hospitals providing 605-bed occupancy to patients as well as out-patient clinics was completed in the same year, to handle 1235 attendances per shift.

In transport, growth has accelerated at 3.7 percent. Railroads accounted for 10.7 percent of the total annual cargo, automobile transport for 49.7 percent, pipeline routes for 32.7 percent. The total of 189.8 million tonne cargoes and 1.3 million passengers have been transported during 2009.

In terms of fiscal sustainability, the country's overall budget deficit stood at minimal 0.7 percent of GDP. At the same time, crediting to real sector increased to 17.4 percent of GDP versus its 2008 level, reaching an estimated US$10.5 billion. Savings have increased to 19.7 percent of GDP from 18.7 in 2008. In dollar value, these stood at US$ 8.1 billion by year end. Expenditures of US$13.1 billion surpassed the country's revenues by one percent. Revenue reached US$12.8 billion of GDP. External debt was minimal at 7.9 percent to GDP.

Outlook for the country's economic growth during 2010 is mixed. However, future growth will most probably maintain the same level as in 2009. Expectations of lower oil prices and weaker demand for hydrocarbons may prevail, if the global economic downturn continues. The forecast for the country's real sector growth in 2010 is at 9.3 percent. However, expected growth in 2011 will be at 9.5 percent. Such optimistic forecasts predict that the country will have a greater economic diversification. Strengthening of the non-oil sector will remain on the agenda. In specific terms, the economy has so far stepped up the development of the diversification program due for completion by June 2010. In the near future, within the non-oil sector, tourism, services and agribusiness may essentially add value to the country's future economic growth. Azerbaijan has joined the level of middle income countries. It has considerably reduced its poverty rating from 50.0 to 13.2 percent over the past 2000-08. Within a single year of 2009, the rating has considerably improved to 10.9 percent. As a result, over 2.5 million of Azerbaijanis have become world's middle income level citizens. The per capita GDP at current prices reached US$4,874 in 2009.

Islamic Republic of Iran

Overview

Iran's economic performance was stable over the past decade. The country is one of world's largest economies holding 11.2 percent share of proven oil reserves. Iran's real GDP growth exceeded 5.0 percent on average over the past few years. In 2008/09, growth slowed down to 1.8 percent compared to 6.7 percent in 2007/08. The slowdown was due to a sharp drop in oil prices in the second half of the reported year. Slower growth in the non-oil sector added to the setback. Iran's GDP at current prices in 2009 reached US$357.2 billion.

The country's non-oil exports had gradually been increasing over the past several years. In 2007/08, the country's current accounts were in surplus of 12 percent of GDP. External accounts position stood strong in that year. According to WTO, in 2007/08, Iran's exports worth of US$116 billion equaled to 1.0 percent world's export share. This marked 31 percent increase in Iran's share of world exports. During 2008/09, the country's current accounts balance was at 7.2 percent. This was due to a decline in global exports and foreign exchange imbalances in trading partners.

Iran's gross reserves were estimated at US$83.0 billion level in 2008, according to IMF. These declined to US$80.5 billion by end of 2008/09. Yet, the reserves remained sufficient to support the economy against potential systemic risks of the global recession. The reserves remained largely undisturbed by crises-driven capital outflows as was the case with some neighboring countries of the region. Over the past three year period, Iran's gross reserves had been stable growing at a 33 percent. Iran is a net creditor, according to IMF classification.

The country's overall external balance surplused during the recent past. It was maintained at 6.1 percent level in 2007 and 7.8 percent in 2007/08. During 2009, Iran's exports reached US$ 70.1 billion and imports US$ 57.1 billion. Overall trade turnover marked US$127.2 billion level. Although this was lower than in year 2007/08, the surplus of US$13 billion was achieved in 2008/09.

By the end of 2008/09, the country's external debt reduced to US$18.7 billion. It accounted for 5.2 percent of GDP. Over the past two years, debt had gradually been contracting from 10.4 in 2006/07 to 9.8 percent in 2007/08.

The annual inflation rate slowed down by the end of the year to 9.9 percent on average. The history of inflation in the country has been high at 18.4 percent in 2007/08 and 11.9 percent in 2006/07. In 2008/09, growth in broad money fell twofold. It was recorded at low 16.6 percent in 2008/09 compared to 39.2 percent in 2006/07. Owing to timely fiscal measures undertaken during the crisis, inflation was curbed significantly.

Liquidity issues were in prime focus of fiscal authorities since the beginning of the global crisis in September 2006/07. To this end, the government facilitated the establishment of the inter-bank market. This was done in order to reduce the demand of local banks for loans of the central bank. The measure had helped to manage liquidity effectively. Introduction of a new loan classification system, based on the criteria of quality, priority and quantity, has eased crediting to real sector. Effective mechanism of credit risk control has been installed. In banking, greater transparency has been introduced in customer credit risk.

During the past three years, unemployment was relatively high in the country as was in most of the developing world. In some advanced countries unemployment reached over 10.0 percent rate on average. The situation with employment in Iran was to greater extent shaped by increasing migrants inflows mostly from Afghanistan and some Central Asian countries such as Tajikistan and Kyrgyzstan. The migrant workforce was in search for jobs and shelter as was the case with Afghan refugees and Tajik migrants during late '90s. As a result, employment of non-skilled labor has stiffened. Annual inflows of up to 700,000 work migrants during 2008/09, pushed unemployment to 11.1 percent. At pre-crisis period, in 2007-08, the annual unemployment rate was much lower at 8.0 percent.

Back in 2007/08, the central government budget balance was maintained at 0.01 percent of real GDP. In view of world's prevailing tendencies to tighten the budgets, the government has taken on measures to reduce its expenditures during 2008/09. Such steps resulted in the reduction of the non-oil fiscal deficit. The measures undertaken by the Central Bank of Iran succeeded in implementing tax adjustments, including on VAT. These measures have essentially helped solve the problem of excess liquidity.

Driven by world's effort to deploy anti-crisis measures, the government focused on macroeconomic fundamentals. These were identified as: (i) diversification and growth in non-oil sector, (ii) combating inflation, and (iii) growth in domestic sources of revenue. The fiscal authorities have succeeded in reducing the non-oil fiscal deficit; and increasing productivity gains through new energy price reforms.

In the country's GDP, agriculture held 10.9 percent share in 2008/09. It was well diversified. Small and medium sized businesses in agriculture were based on 4.3 million farms. Agricultural imports have increased over the past several years. Iran has the capacity of feeding over 200 million people annually. Grain production increased at 25 percent. Owing to this fact, the demand for imports for this item reduced to 35 percent. Furthermore, over 500 million tonnes of grain went for exports during 2008/09. Wheat production increased at 40 percent to 13 million tonnes. Similar increases were on rice production up to 2.1 million tonnes, and oats to 2 million tonnes. Meat stock of 2.5 million tonnes was sufficient for domestic needs. Iran rates number 8 among world's largest producers of garden plants. Because of traditional dietary patterns, which favor agricultural products, the country records world' highest consumption of fruits and vegetables, which stands at 200 kg per person whereas world's average is limited to 80 kg per person.

In 2008/09, the industrial sector accounted for nearly 45.2 percent of GDP. Performance in this sector was strong. However, within this sector, generation of electric power fell short in previous years. To reverse this trend, during 2008/09, generation of electricity increased by 3.6 percent against 2007/08. Assitional capacities to existing hydropower stations and nearly 43 wind power installations generating over 28mwh of electricity were started to install. Expansion of additional capacity up to 100 mwh was achieved in 2008/09. Furthermore, construction of US$500 million worth wind power plant in the Khorasan Province was underway. The projected generation capacity of 60mbt electricity was installed.

<u>Outlook:</u> with the increasing non-oil output, further development of oil and gas fields will continue. By year 2015, Iran will increase its oil production by 30 percent. The increase will cover the estimated 40 percent fuel shortage in the domestic market. To store the increased oil products, high capacity oil storage facilities will be installed during 2010-11. Financing is expected to come from the private sector and loans.

Gas production will double from current 600 million cubic meters per day to 1,111 billion c.m. p/d. To accommodate increased gas flows, the new gas storage plant, the so called *South Pars* will be launched in two years' time. Over US$2.5 billion foreign investments have been attracted to complete the ongoing works on the plant construction.

In view of electricity shortages in neighboring regional countries, the construction of new electric power station to generate 2mbt electricity will start during 2010. The Turkish Investment Company has plans to invest up to US$10 million. The plant will use methane as alternative energy source.

In the Free Economic Zone of the Port of Chabahar over three thousands hectares will accommodate clean energy projects. With effective diversification of energy resources already ongoing, Iran is well positioned to grow at faster pace in near term. Its GDP at current prices is expected to double in size to US$734.4 billion by 2014. The country's imports and exports have been projected to reach US$74.3 billion and US$99.9 billion by year 2013. The increase in returns on non-oil component of the country's trade is in continuous focus of the economy.

Republic of Kazakhstan

Overview

With first signs of the global economic crisis unraveling since 2007, the country has taken on prompt response measures to stabilize its financial sector. For this purpose, Kazakhstan's National Fund, Samruk – Kazyna, allocated US$12.5 billion. Steady savings from oil revenues in the pre-crises period helped the economy resist the global recession. Timely capital injections during 2009 resulted in generation of over 400,000 new jobs. To adjust to structural changes, which took place during the crisis, 90,000 people have been re-trained. The total of 162 large scale infrastructure projects have been prioritized for near term implementation. Real estate sector inefficiencies resulting from global mortgage crisis have been removed. The real GDP grew at 1.1 percent during 2009.

With gradual recovery of the financial sector, the country's official reserves increased at 17 percent rate. By the end of the year, these reached US$23.9 billion. Gross reserve money, including assets of the National Fund and the stimuli, reached US$47.5 billion. These roughly accounted for 44 percent of GDP.

Yet, in spite of quick recovery steps, bank crediting was still sluggish. Exchange rate distortions in trading partners as well as in world's common currency of exchange, also the shifts in market risk appetite caused the devaluation of the national currency. Kazakhstan's Tenge was devalued in February 2009. As a result, the annual inflation was reduced to 6.2 percent by year end.

Investment confidence has been gradually restoring. Capital inflows of US$7.6 billion, which during 2007/08 had been revoked, returned back to credit the real sector. The FDI has not been seriously affected by the crisis because of the pipeline investments in oil and gas, which remained active. These also included long term investment projects in Tengiz, Kashagan and Karachaganak that were largely undisturbed by global capital turbulences. Ample bank liquidity, helped secure loans to non-oil sector. These were up at 13.9 percent compared to just 5.2 percent in 2008. Furthermore, Kazakhstan's National Bank reduced its refinancing rate from 10.5 percent in 2008 to 7 percent in 2009. Subsequently, business dynamics regained.

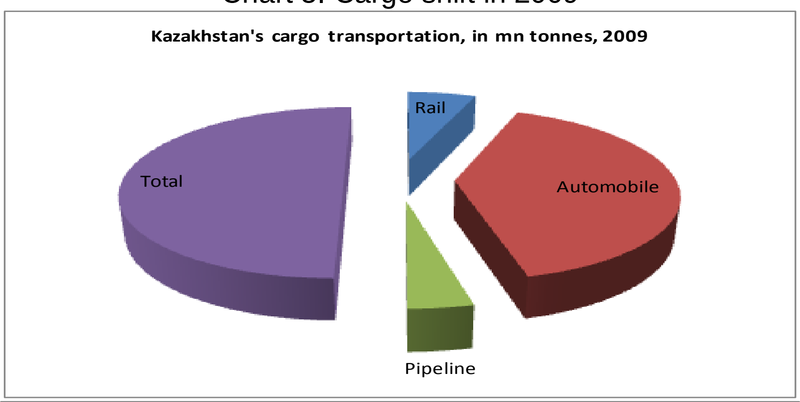
With investor confidence having gradually re-gained, Kazakhstan's finance has plans to evolve into a regional financial hub. It will offer the region to streamline capital investment flows, assist in regulatory counsel, and work on the expansion of the Islamic financing model across the region.

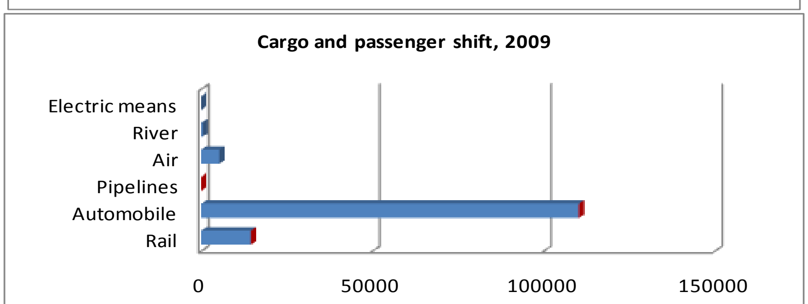
Kazakhstan's trade in 2009 was in surplus of US$15.2 billion. The overall trade turnover reached US$86.3 billion. Exports rose to US$50.8 billion marking 8.1 percent increase compared to 2008. Imports stood at US$35.5 billion.

Agriculture grew at 11 percent. Technological renovation was first priority for this sector. It is expected to bring a fourfold increase in agricultural productivity in the years to come. The share of agriculture in GDP accounted for 8.0 percent in 2009, second smallest in the region after Azerbaijan. Construction of high tech food processing plants, including 8 large diary and 11 meat processing plants have been set for installation during 2009-10.

In transport, construction of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline has been started in 2009. Gas flows will originate from those ECO countries that posses gas deposits. This will be delivered to China. To revive the Great Silk Road, the year 2010 will mark the launch of construction works on West China-West Europe automobile road. The project will offer US$2 billion in value to generate new jobs for the region. In terms of services provided in transport, total cargoes shifted during 2009 reached 2,099 million tonnes. Of this amount, 247 million tonnes were transported by rail, 165 mn\t through pipelines, and 1687 mn\t by automobile transport. Automobile transport accounted for 80.3 percent of total passenger shift

Chart 5. Cargo shift in 2009





	Rail	Automobile	Pipelines	Air	River	Electric means
Series1	14519	110278		5313	352	1,5
Series2	11,78	80,36	7,86			

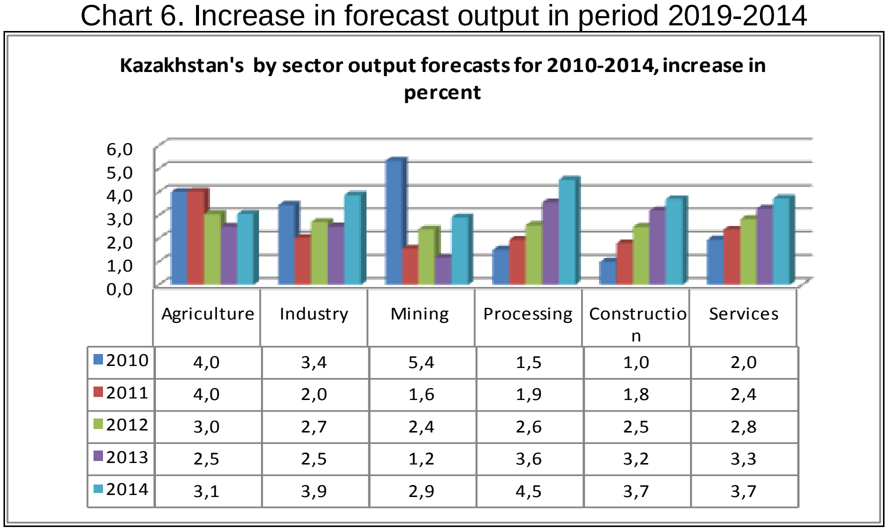
Source: IPU:Table1:Cargo shift in mn t/km, Table2:Passenger shift in percent of total

During the crises, expenditures exceed revenues. People tend to save more and spend less. In this regard, the country's overall budget deficit due to increased saving has improved to 2.0 percent in 2009. It expects to narrow further down to 0.6 percent in 2010. Despite the tightening the belt measures, the transfers to the social sector were maintained at sustainable level to safeguard people from shocks of the crisis. Safety nets in Kazakhstan have been at sufficient level. During 2009, the pension retirement payments have increased by 25 percent. Another 25 percent increase has been foreseen for year 2010 in salary payments for those who are employed in healthcare and education. Generally, consumer income and demand at times of the crisis have the tendency to go up over a longer time frame. Owing to the socially responsible management in the country, the per capita income is envisaged to grow to US$9,088 by year 2015.

Outlook: during 2010-11, the economy has been forecasted to grow at 2.3 percent of real GDP. Given that, during 2009, due to the global recession, the cost factor GDP stood at US$107.9 billion. Its upward growth will start from year 2013. The estimation of 2.9 percent, which will reach 3.6 rate is for year 2014. The share of stabilization packages has reached almost 11 percent of GDP in 2008/09. Effective stimulation of the economy is already showing healthy signs of economic recovery. However, protracted debt restructuring continues to restrain growth, especially in crediting to real sector. Non performing loans, mainly in private sector, have slowed down growth in SMEs, which has especially been vibrant over the past decade. The share of SMEs in the overall industrial output is projected to grow to about 80 percent by 2015.

In the near term, oil and gas prices, currently at US$82, will remain favorable. Against this end, oil proceeds will help improve external position. The Kashagan oilfield will start its production in 2013. The total expected oil output will increase to 85 million tonnes in 2014 from 80 million tonnes in 2009. Oil proceeds will support the rise in economic diversification. Non-oil sector growth is forecasted to be relatively slow in 2010-11. However, the upward growth will recover its pace by 2014 (see the chart below.)

Chart 6. Increase in forecast output in period 2019-2014



	Agriculture	Industry	Mining	Processing	Construction	Services
2010	4,0	3,4	5,4	1,5	1,0	2,0
2011	4,0	2,0	1,6	1,9	1,8	2,4
2012	3,0	2,7	2,4	2,6	2,5	2,8
2013	2,5	2,5	1,2	3,6	3,2	3,3
2014	3,1	3,9	2,9	4,5	3,7	3,7

Sources: ECO NSO

With rising export prices for grain, uranium, copper, steel, gold and other major export items, the country is geared for re-balancing its current accounts. Exports are expected to grow further by 14.0 percent to reach US$58.8 billion in 2010. In the following four years, these are projected to hit the US$60.4 billion level. Imports will grow to US$ 40.5 billion in 2011 to register 5.8 percent increase. By the end of 2014, imports will reach US$ 43.2 billion. Trade deficit is expected to be at US$ 19.0 billion in 2012 and, will narrow to US$ 17.2 billion in 2014. In the meantime, the focus on greater diversification of the non-oil sector will hold strong. Gains from the expected rise in the productivity in non-oil sector are believed to come through technological innovation and strong human capital.

The need to monitor the currency position will be in focus of fiscal authorities for the near term. In view that neighboring China and Russia try to maintain their currencies fixed, most probably, Kazakhstan will follow a similar path. Low domestic demand and world commodity prices will keep inflation low at an annual 6.0 percent rate towards 2014. Unemployment, which has been decreasing from 9.4 percent to 7.4 percent in 2007 and 2008, is expected to fall to 5.9 percent in 2010-11. During 2009, it remained at 6.3 percent due to global decline in labor demand.

The country's foreign exchange reserves will remain sufficient. In the long term, by year 2020, the assets of the National Fund are expected to grow to about US$20 billion. Furthermore, the ongoing investments in oil and gas deposits will increase to US$10 billion. Large scale road projects, including West Europe - West China gas pipeline will bring an additional US$5 billion. Considering that Kazakhstan will heavily invest in high tech industrial base, its import substitution as a result of the expected technological innovation, will reach 14 percent of GDP. SMEs will account for over 80 percent of real sector economy by 2015. About 80 percent of exports will come from domestic producers. With 3.9 percent share of world's oil reserves, the economy has all in hand to recover the sustainable 7.0 percent growth by year 2015.

Kyrgyz Republic

Overview

Over the past eight years, Kyrgyzstan's economy, although small in size, has been developing at an average 5.6 percent rate. During 2009, however, high prices on edibles and fuels have mounted the manufacturing costs. Subsequently, the country's economic activities, especially in industries, halted. The real GDP growth declined to 2.3 percent compared to 6.7 percent back in 2008. The share of the industrial sector in the GDP shrank to 42.7 from 43.9 percent in 2008. Taxes contracted to 11.1 from 13.1 percent. Growth in the industrial sector fell to 9.3 percent from its 11.3 percent rate in 2008. Reversely, the share of the services sector increase from 43.0 to 46.2 percent mainly due to increases in payments for services in aviation. The physical weight of processing industries increased to 81.4 percent of the country's total output. Mining grew at 2.4, energy and water generation at 16.2 percent. Given the sluggish real sector growth, the activities that helped the economy maintain the low and yet positive growth, were mainly in construction, transport and communications.

In the transport sector, business went on as usual. In view that in neighboring countries this sector contributed to nearly 63 percent of increases in overall output of commodities and services, Kyrgyz authorities made considerable effort to re-vitalize this sector. Cargo shift reached 1,555 million tones by year end. Still, this was a meager increase of 4.5 percent compared to 2008. In spite of the overall positive growth in this sector, natural gas throughput fell by 2.4 times. Similarly, transportation by river and rail registered almost twofold decline against 2008 performance.

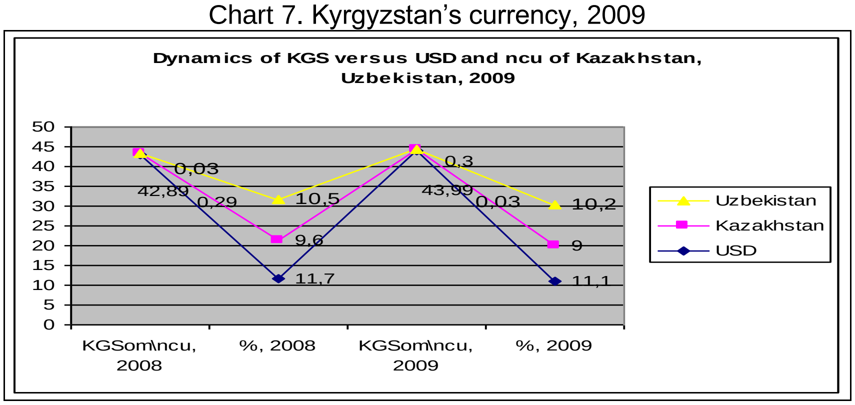
Construction was vibrant during 2009. Targeted investments were absorbed at an increased rate of 19.7 percent. Overall investment volume in this sector increased 1.3 times. Output increased at 6.3 percent. Nearly 70.9 percent of the country's total investments went to subcontractor works thereby contributing to new job creation. As a result, 71 new transformer stations started operation in 2009. Residential housing construction increased at 1.3 percent rate. At year end, 8,053 new apartments were offered to Kyrgyz citizens.

In the services sector, gross revenue increased at 9.7 percent. Nearly 90 percent of all services were in mobile telephonic networks. Likewise, provision of postal and electronic services increased at 13.8 percent rate. Kyrgyzstan has been home for foreign aviation installations since 2003. Rental payments for the use of air terminal facilities and services provided in maintenance, reached an estimated US$63 million annually for the past few years.

The level of workers' remittances was maintained at US$1.3 billion level over the past five year period. International fiscal rescue stimuli during crises and donor support prevented the Kyrgyz economy from recession. Despite external assistance, the per capita real GDP remained at US$688 and minimal wages remained low at below US$150.

The annual inflation rate reduced to 7.9 percent in 2009 against 20.8 percent in 2008. Fall in prices for basic food items, including flower, oil, diaries and vegetables helped suppress inflation from its 20.8 percent highs in the previous year. The 28.9 percent reduction in grain prices helped increase imports of this important item. Prices in processing industries increased at 8.9 percent, mining at 13.1 percent. Highest were the increases in energy and water generation and distribution. These rose at 27.1 percent. Price-driven inflation has shaped ups and downs in the performance of the manufacturing sector. During 2009, the Kyrgyz national currency, Som, was maintained at a fixed rate. This was relatively stable against those in neighboring trading partners within ECO (see the chart below).

Chart 7. Kyrgyzstan's currency, 2009



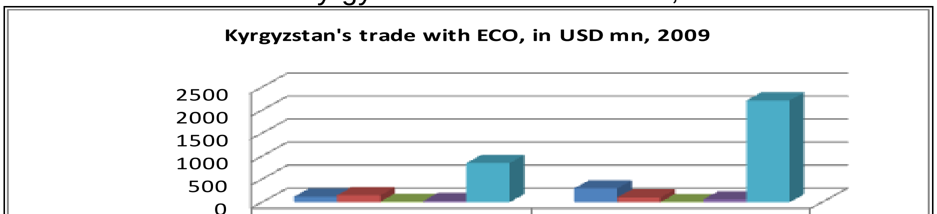
Source: Statistical Committee of Kyrgyzstan (StatKG)

Despite economic hardships evolving from the global crisis, the number of people in search of jobs in 2009 went up. Decline in growth in neighboring countries, especially, Russia, which provided employment for Kyrgyz active workface in real estate sector, have pushed unemployment in Kyrgyzstan up from 2.3 percent in 2008 to 17.0 percent in 2009, according to ILO.

The overall trade turnover declined by 25.4 percent to US$3,856 million compared to 2008. Exports slumped to US$1,169 million reflecting 21.9 percent decline. Imports barely reached US$2,686 million. At the cost of lower imports, trade deficit narrowed down to US$1,516 million. It was at US$2,170 million in 2008.

Intra-regional trade with ECO countries accounted for 20.5 percent of Kyrgyzstan's trade turnover. Within this share, Kazakhstan's stake in Kyrgyz exports stood at 10.9 percent, Uzbekistan, Tajikistan and Turkey at 6.7, 0.5, and 2.5 percent of total intra-trade in 2009. The remaining 79.4 percent went to countries of other regions.

Chart 8. Kyrgyzstan's trade with ECO, 2009

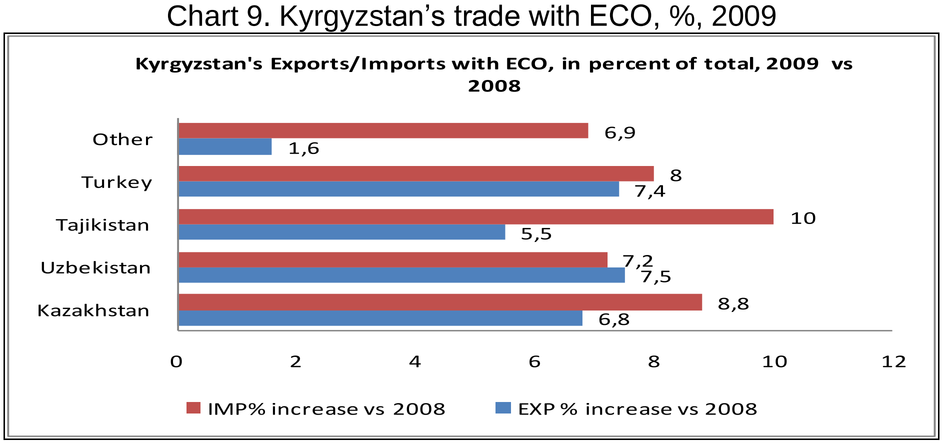


	EXP (USD mn)	IMP (USD mn)
Kazakhstan	120,4	301,1
Uzbekistan	152,1	104,9
Tajikistan	13,9	3,5
Turkey	30,9	65,2
Other	852,5	2212

Sources: StatKG

The large share of Kyrgyz intra-regional imports came from Tajikistan at 10 percent rate. Turkey and Uzbekistan were exporting to Kyrgyzstan at 7.4 and 7.5 percent of Kyrgyz intra-trade within ECO.

Chart 9. Kyrgyzstan's trade with ECO, %, 2009



Sources: StatKG

In 2009, capital investments had a slight increase to 11.9 percent of GDP compared to 10.2 percent in 2008. This was mainly due to dynamics in construction. One of the main sources of the rise in investments were domestic savings at 32 percent. Domestic spending weakened on the account of the rise in savings by individual households. Bank financing at 8.9 percent helped sustain investments from downslide, government budget and other internal financing was at 1.4 percent. There were other sources that contributed to the increase in investments in Kyrgyzstan. The neighboring countries, including Kazakhstan, Russia, and China have provided support to infrastructure projects in Kyrgyzstan. Some grants amounting to nearly US$450 million came from Russia. During year 2009, the U.S. invested about US$50 million in programs aimed at economic stabilization of Kyrgyzstan. During 2008 and 2009, large amounts of international stimuli have flown into economy to help it resist the global crisis. Thus, by the end of 2009, the country's official reserves reached US$1.2 billion. Gold had US$92.4 million market value.

Gross revenue increased from 25.3 percent in 2008 to 28.4 percent in 2009. This was sue to increase in tax collection which went up from 24.6 to 28.2 percent. Official transfers rose from 0.4 to 5.0 percent. Due to budget allocations for Presidential elections due in 2009, expenditures rose from 23.7 to 28.9 percent. Because of the small size of the economy managing the budget was easy. By the year end, the overall budget registered a 0.6 percent deficit compared to the 1.6 percent surplus in 2008. Social security payments registered a small increase from 2.5 to 2.9 percent. Transfers to healthcare were also dismal from 2.3 to 2.8, and education from 5.0 to 5.6 percent. Government services have posted a 3.9 percent increase in spending during 2009 versus 1.2 percent in 2008.

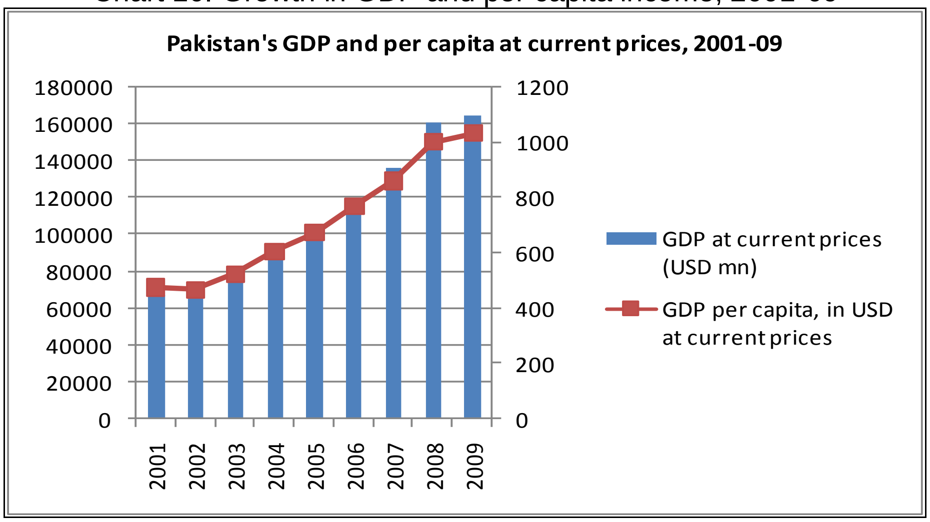
<u>Outlook</u>: in the near term, the country is looking forward to ensure debt reduction by half to 40 percent of GDP. Banks are committed to sustain the budget balance within the range of 1.0 to 1.5 percent, annually, for the near term. Given the small size of the economy and sufficient international stimuli, the country will be able to recover its GDP growth rate within 3 to 4 years, according to world's leading financial institutions. However, such forecasts will hold true provided political and social stability in the country be secured within the longer time frame.

Islamic Republic of Pakistan

Overview

During 2009, Pakistan's real economy growth declined to 2.0 percent rate compared to 4.1 percent in 2008. Pakistan being world's 27th largest economy has experienced spillover effects from its interdependence with world's big capital markets. The economy suffered from significant capital outflows at over 11 percent rate. Loss of investor confidence has been caused by a host of domestic challenges, security considerations being in prime. These factors have triggered a deep, almost twofold, decline in Pakistan's economic growth during the reported period. Shortages in electric and fuel supplies have amplified the dependence on external energy resources. By the end of the year, Pakistan's GDP at current prices was registered at US$164.6 billion level. Similarly, growth in per capita income slowed down from its 2.3 percent growth in 2008.

Chart 10. Growth in GDP and per capita income, 2001-09



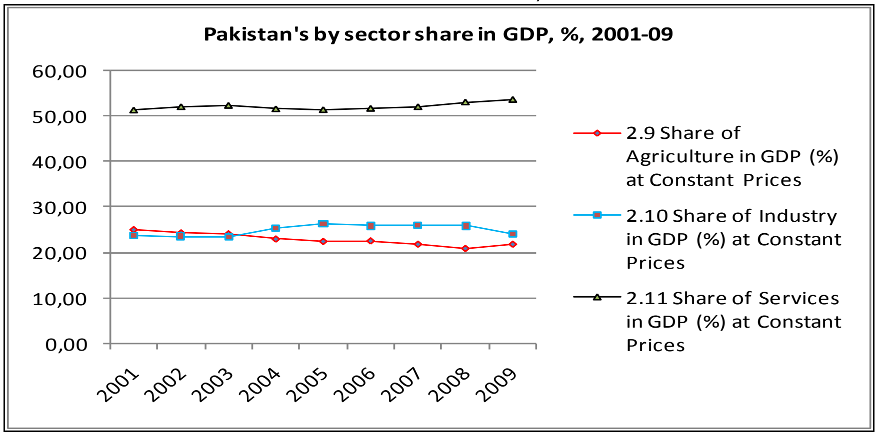
Source: NBP, FSB, SESRIC

At times of the crisis, agriculture showed strong resistance to recession. While growing at healthy 4.3 percent, it expanded to almost 21.8 percent share of GDP in 2009. Such growth was much needed as it provided employment for over 44.0 percent of the country's active labor force. Over the last decade, the agricultural sector has undergone structural changes: the output produced by major crop cultivation has gradually decreased while livestock went up. Food propensities and global integration processes in agriculture shaped such changes.

Unlike in agriculture, growth in the industrial sector contracted by 6.1 percent. Its share in GDP declined to 24.3 percent, lowest over the past decade. Growth in manufacturing was negative at 3.3 percent. However, within the industrial sector, small and medium enterprises grew at 7.5 percent rate. Dynamics in SMEs prevented the industrial sector from further economic downslide. In fact, these were ones to 'kickstart' economic recovery, which started in 2009.

Although the share of services in GDP expanded by 1.1 percent in 2009 to reach 53.8 percent, growth in this sector was weak at 3.6 percent compared to 6.6 percent in 2008. Delayed payments for the services provided by Pakistan to its partner countries resulted in low outcomes. Furthermore, external demand for the services, traditionally provided by developing countries, has also turned out low.

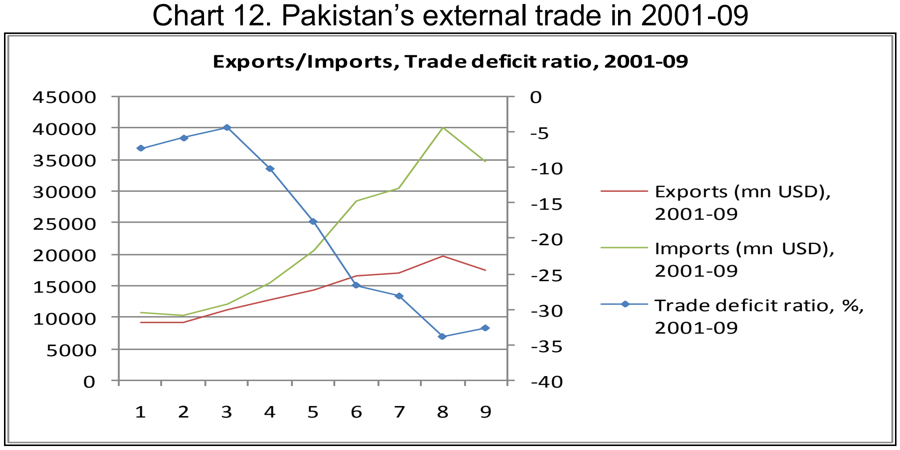
Chart 11. GDP structure, 2001-09



Source: UNSD, FSB

As the world's trade declined considerably during the global crisis, that of Pakistan declined also. It fell to US$50.4 billion in 2009 compared to US$60.0 billion in 2008. Exports amounted to US$17.6 billion showing 10.9 percent decrease. Likewise, imports contracted to US$32.8 billion decreasing at 13.2 percent. The signs of economic recovery was seen in the improvement of the trade deficit, which narrowed down to 15.6 percent. In dollar terms, it stood at US$15.2 billion by year end.

Chart 12. Pakistan's external trade in 2001-09

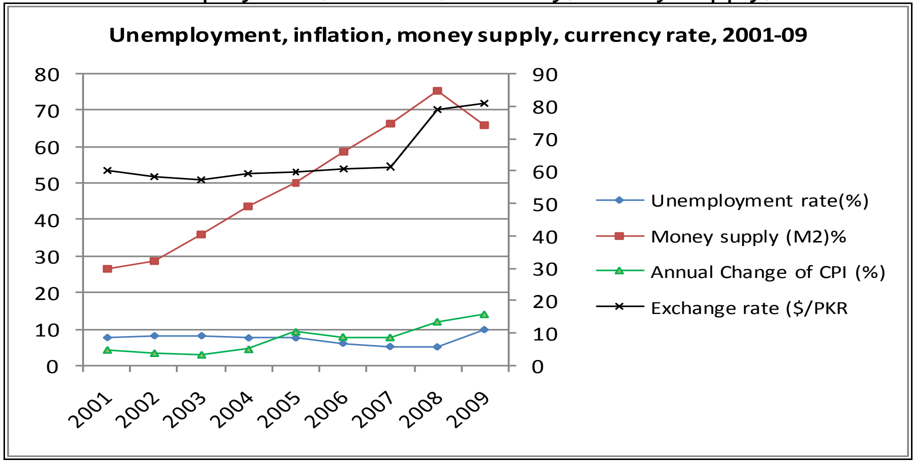


Source: FSB, NBP, Finance Ministry of Pakistan

Subjected to global investor behavior, which avoided systemic risks in capital markets, the FDI volumes in Pakistan shrank to US$3.7 billion towards the end of 2009. Nevertheless, gross reserves stood at 14.1 percent share of GDP, which in developing countries would still encourage potential investors.

As inflation in most countries of the region started to lower down during 2009, that of Pakistan remained high by mid-2009 in spite that money supply was cut by half. However, towards the end of the year, it declined to 14.0 percent. Unprecedented high food and fuel prices as well as the sharp lift in electricity tariffs were behind persistence in high inflation. Low revenue and delayed disbursements of pledged donor support have complicated fiscal management. Moreover, the national currency, Rupee, has depreciated by 15.0 percent. Prices on food items rose to 26.6 from 15.0 percent. Non-food items topped the peak 19.0 percent price level compared to just 6.0 percent in 2008. Following this cycle, perhaps, only by year 2014, inflation will manage to fall to 8.0 percent.

Chart 13. Unemployment, inflation, currency, money supply, 2001-2009

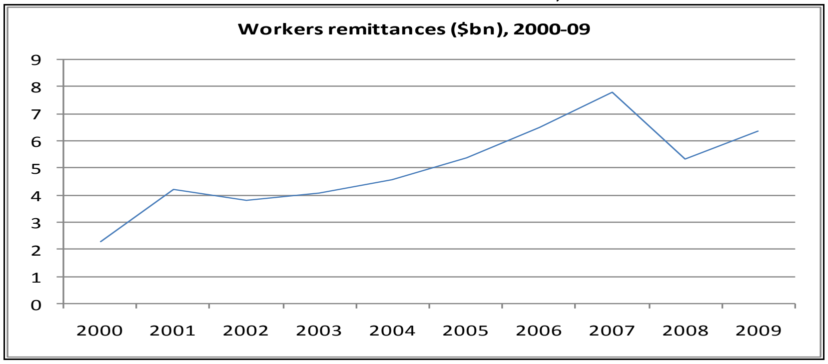


Source: ILO, FSB, SESRIC

Improvement in the country's fiscal deficit was positive given the background of the overall downturn. In 2008, fiscal balance was in deficit of 7.4 percent. The year 2009 benchmarked considerable improvement. The deficit declined twofold to 4.2 percent. Reduced consumption and lower spending contributed to such improvement. Other factors that helped bring it down were: reduction of expenditures to 18.6 percent in 2009 from 22.1 percent in 2008, and firm revenues, which were maintained at 14.6 percent of GDP during 2009 and in the pervious year.

Workers' remittances have long served an additional source of country's revenue. Their peak came for year 2007 when remittances rose to US$7.0 billion in gross. During 2009, these helped re-balance the country's balance sheets by refilling, although in smaller amounts, the current accounts. By the year end, the remittances increased by 19.5 percent. These were transferred mainly from UAE, Saudi Arabia and USA.

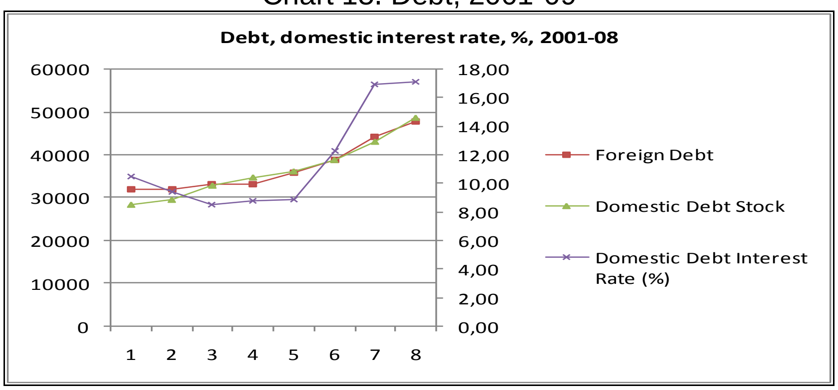
Chart 14. Workers' remittances, 2001-09



Source: ILO

The need to meet debt obligations was due twice during year 2009. First call for payments came in February and second in December 2009. The debt service ratio increased from 9.2 in 2008 to 21.2 percent of total debt stock outstanding for fiscal year 2009. Over the past eight years, debt service payments averaged to US$7.9 billion. The interest rate on domestic debt payments stood at 11.5 percent rate on average. Gross external debt and liabilities increased to 30.2 percent of GDP compared to 28.1 percent in 2008. In dollar terms, these amounted to US$50.1 billion by year end against US$46.3 billion in 2008.

Chart 15. Debt, 2001-09



Source: SESRIC, UNSD

Due to unavoidable debt payments in 2009, and also other external factors, the country's official foreign exchange reserves have depleted to US$9.1 billion towards the end 2009 from their mid-year level of US$12.5 billion.

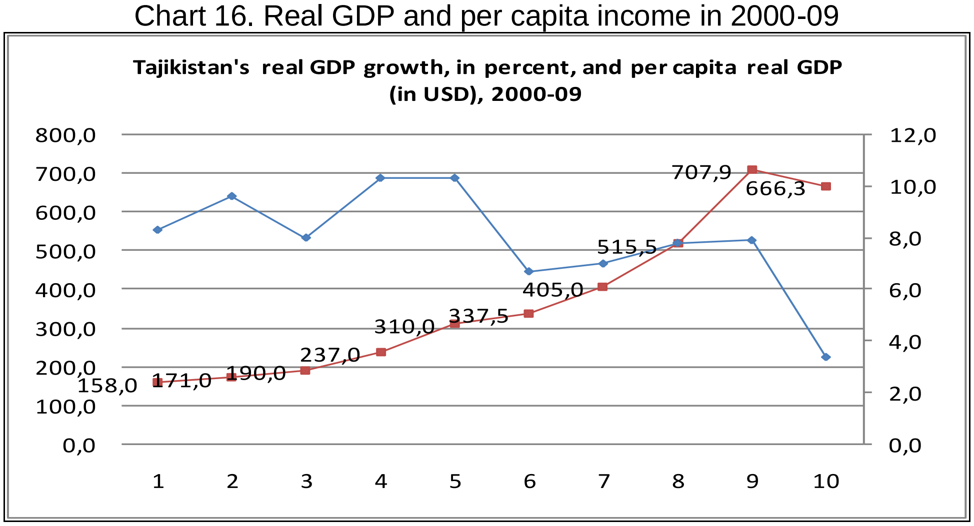
Outlook: investor confidence in the economy will require longer time frame in order to be fully restored. In 2009, Pakistan was ranked 85th in ease of doing business among world's 183 countries. With 52.2 million labor force of 167.7 million population, the country is set forth to overcome the economic crisis within 3 to 4 years ahead. Project aid of an estimated US$2.7 billion is likely to support the budget in 2010. Of this amount grants only will make US$990 million. If materialized, stabilization measures will focus recovery of the industrial sector in the first place through infrastructure projects. Exports growth is projected at an estimated 12.0 percent of GDP during 2010-14, which is lower compared to previous high profit years - 2007 and 2008. Imports will remain at an average 21.0 percent of GDP throughout the period 2010-14. In view of potentially lower consumption in the country during the said period, the need for external financing will remain low at about 10.0 percent. Starting from year 2012, the demand for capital will increase to an estimated 14.8 percent. In 2010, the current accounts deficit is expected to further narrow down to 3.5 percent of GDP. It will remain at this benchmark throughout period 2011-14. The change in the external debt will be positive through its gradual reduction at the rate of 1.8 percent during period 2010-11 to 0.3 percent by the year 2012. The real GDP is projected to grow at 3.3 percent rate in 2010. Inflation will hopefully reduce to 10.0 percent in 2010-11.

Republic of Tajikistan

Overview

Over the period 2000-10, Tajikistan's real GDP grew at an average 8.0 percent rate. Owing to the global economic recession, it contracted to 3.4 percent in 2009. The reasons behind the sharp fall in growth from the 2008 level of 7.9 percent were mainly lower export demand for steel and agricultural produce. International prices for steel declined by almost 30 percent. High inflation, rising prices for electricity and shortages in its supply have also contributed to economic slowdown. Fall in industrial output led to the decline in consumer consumption given the shrinking income of individual households. By the end of 2009, per capita real GDP fell to US$666.3 compared to US$707.9 in 2008. To cushion negative effects of the global economic crisis on the social sector, the government increased public spending in health to 10.8 percent from 8.7 in 2008 and, in education to 32.4 percent from its 24.5 percent level in 2008. Over 37.4 percent of the country's total capital investments in 2009 went to improvements in the social sector.

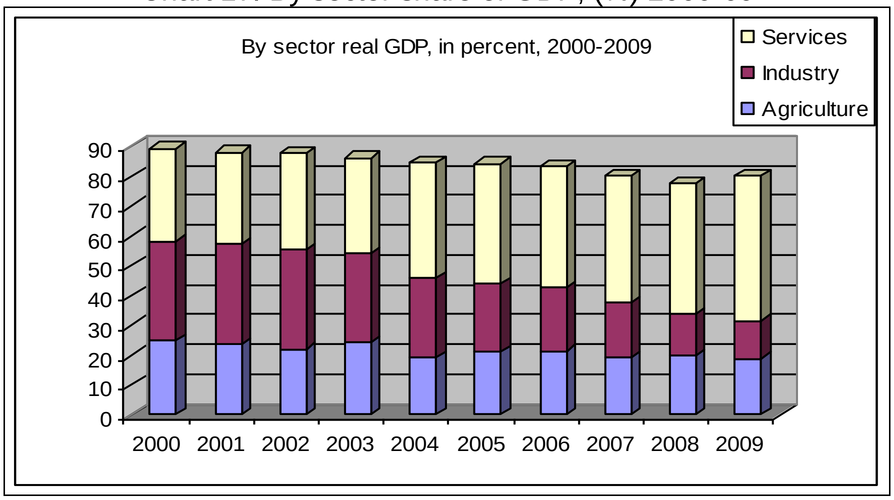
Chart 16. Real GDP and per capita income in 2000-09



Source: Tajikistan's State Committee on Statistics (StatTJ)

As the industrial output fell, the local authorities focused on achieving efficiency in the services sector. In the past, growth in this sector had gradually expanded. With passage of time, the services sector increased to 48.7 percent share of GDP outpacing that of industry. The latter shrank to 12.8 percent in 2009 from 33.2 percent in 2000.

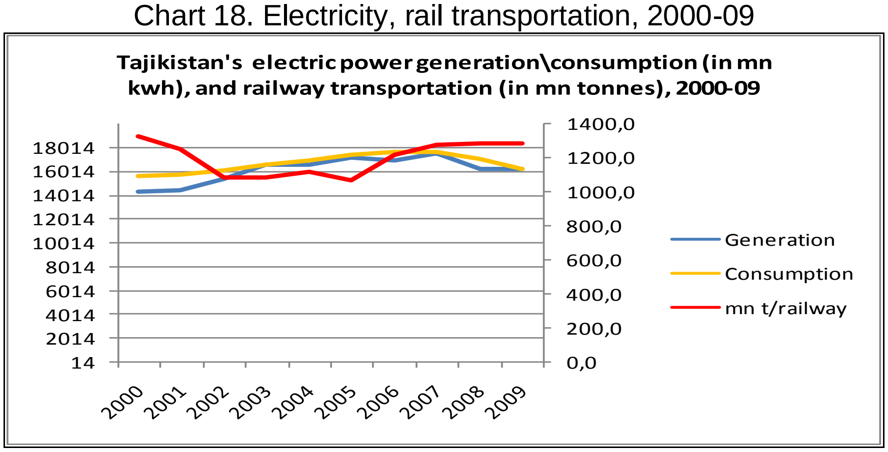
Chart 17. By sector share of GDP, (%) 2000-09



Source: StatTJ

One of the reasons behind gradual decline in the industrial sector were power supply shortages. In energy sector, both, generation and consumption of electricity went down. This was happening especially during the crisis years 2008-2009. Over the past five years, generation of electric power has gradually decreased by 5.6 percent whereas consumption fell by 8.0 percent (chart below). Electricity has been rationed to a few hours a day. Talco, Tajikistan's largest enterprise, accounted for 40 percent of total electricity consumption. Because of reduced power supplies, its output fell considerably. Nearly 36.8 percent of the total number of manufacturing units stood idle during 2009 due to electric power supply shortages. In the meantime, the rise in economic activity came from the transport sector. The year 2009 marked a 20.0 percent increase in total cargo volumes transported by rail over the past five year period.

Chart 18. Electricity, rail transportation, 2000-09

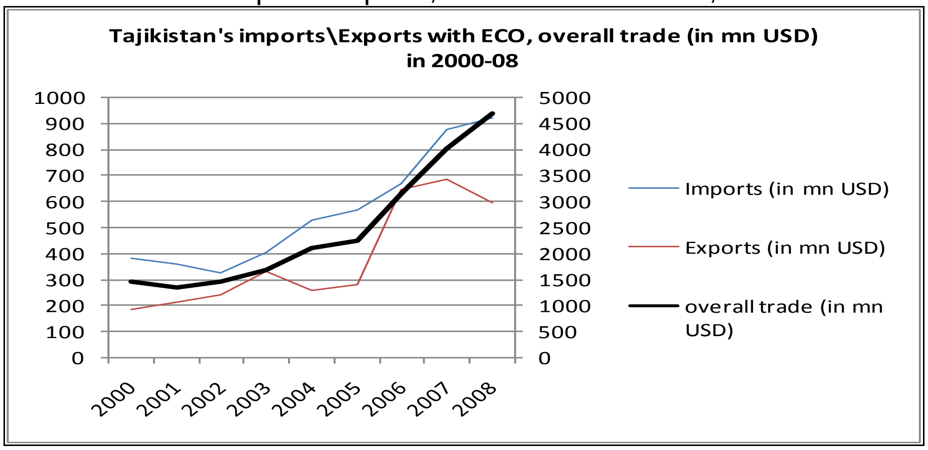


Source: UNIDO

The share of agriculture holding firm at 21.2 percent of GDP on average during 2000-06, started diminishing. In 2009, it settled down at 18.1 percent. Agricultural output increased at 10.5 percent compared to 2008, including in livestock at 5.9 percent and in planting 12.6 percent.

Given essential fall in world's trade during the crisis, Tajikistan's trade turnover declined by 23.6 percent to US$3,578 million. Trade deficit stood at US$1,558 million. Exports fell by 28.3 percent compared to 2008. These made US$1,010 million. Imports fell by 21.5 percent to US$2,568 million.

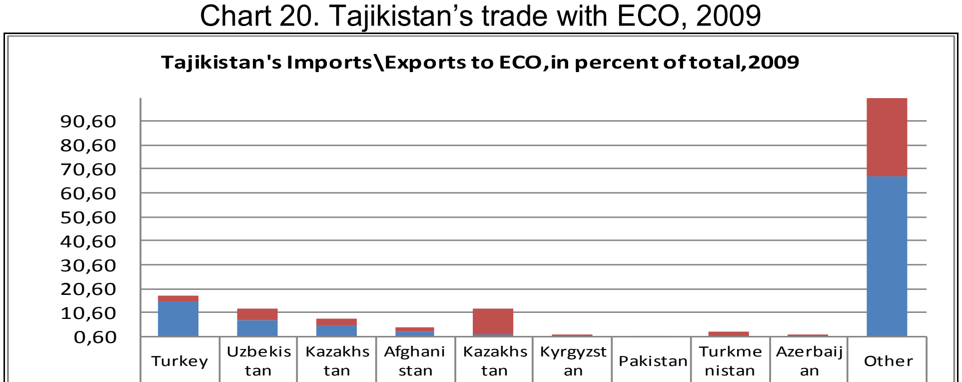
Chart 19. Imports/Exports, overall trade volume, 2000-08



Sources: WTO, StatTJ

Concurrently, growth in Tajikistan's intra-trade, on export side, was sluggish during 2008- 2009. This was mainly due to a sharp fall in the regional demand for agriculture produce, the country's major export item. Due to energy shortages, Tajik Aluminum Company (Talco), the country's main producer of aluminium, was running below its full capacity throughout 2009. In the past, the overall trade turnover was dynamic. The average increase in overall trade volumes was positive during 2005-09 (chart below).

Chart 20. Tajikistan's trade with ECO, 2009



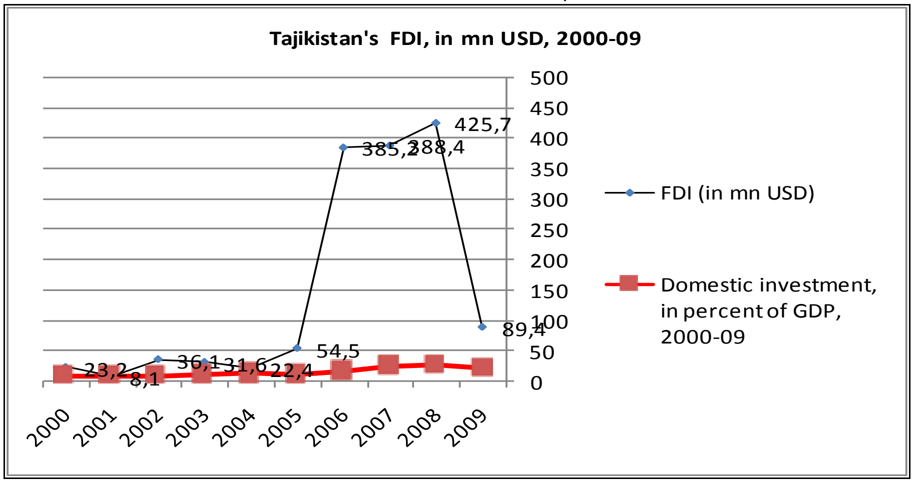
	Turkey	Uzbekistan	Kazakhstan	Afghanistan	Kazakhstan	Kyrgyzstan	Pakistan	Turkmenistan	Azerbaijan	Other
Imports	2,30	4,90	3,10	1,70	10,90	0,80	0,00	2,50	1,10	72,70
Exports	15,10	7,10	4,80	2,70	1,50	0,60	0,50	0,00	0,00	67,70

Sourcse: ECO NSOs

Investments declined by 20.8 percent in 2009. Such fall came as the consequence of the country's contracted workers remittances, which, over the past decade, served as the main source of savings by individual households. Workers' remittances accounted to nearly 47 percent of real GDP over the past years. In 2009, however, these fell by almost 35 percent. With Russia's economic decline during 2008-2009, most Tajik migrant workers had to return to their homeland augmenting thereby the country's unemployment rate, which stood at 8.1 percent in mid-2009 against average 2.2 percent over the past several years.

With the decline in overall investment, the FDI fell by 78.9 percent in 2009 compared to its level in 2008. This was because of the prevailing trend in foreign investor behavior to revoke its owned invested capital, at times of crises, in order to safeguard it from the risk of potential halt in the implementation of investment projects in a recipient country.

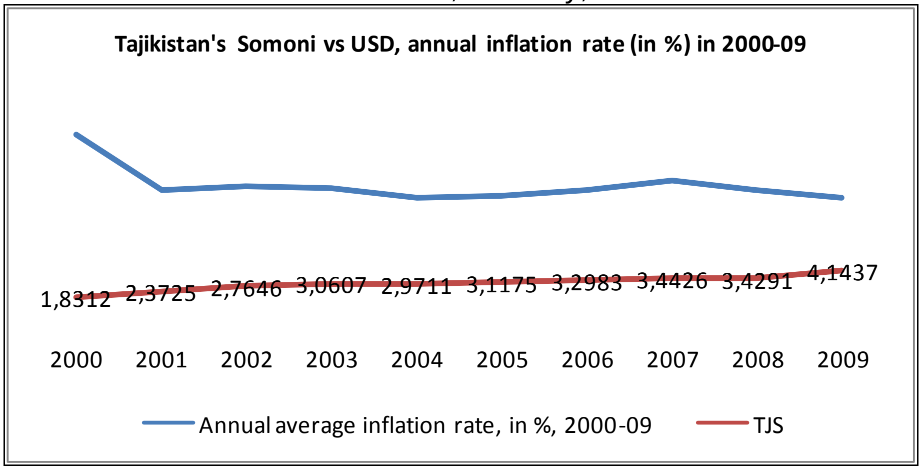
Chart 21. Domestic investment, FDI in 2000-09



Sources: SESRIC, ECO NSO

Facing rigid requirements of world's financial systems to tighten fiscal and monetary policies, the country has taken on measures to squeeze excess liquidity. As a result, the Tajik national currency, Somoni, depreciated at 20.8 percent against the US dollar to TS/$4,1437 in 2009. However, the annual average inflation rate remained at 10.5 percent by the end of 2009 as it has remained high over the past decade (see the chart below).

Chart 22. Inflation, currency, 2000-09



Source: ECO NSO

Outlook: in view of the small size of the economy and its dependence on external environment, the country's growth in 2010-11 will largely depend on the terms of trade with Netherlands, major importer of Tajikistan's aluminum, and regional partners. As the world is set forth for recovery at 2.7 percent rate in 2010, Tajikistan's growth is forecasted at 5.2 percent in 2010-12, according to world's leading financial institutions. During 2010, international prices for steel are expected to rise by 11 percent. This will be beneficial for Tajikistan's exports. Inflation will likely follow its historical pattern in near term perspective. A number of factors, including currency distortions in trading partner economies, will impede inflation from downward slide to at least 7.0 percent. Worker's remittances will be weaker than expected. The country will strive to keep its government debt below 40 percent of GDP over the medium-term. The banking system faced default on loans. This will constrain banks' ability to provide increased crediting to the economy.

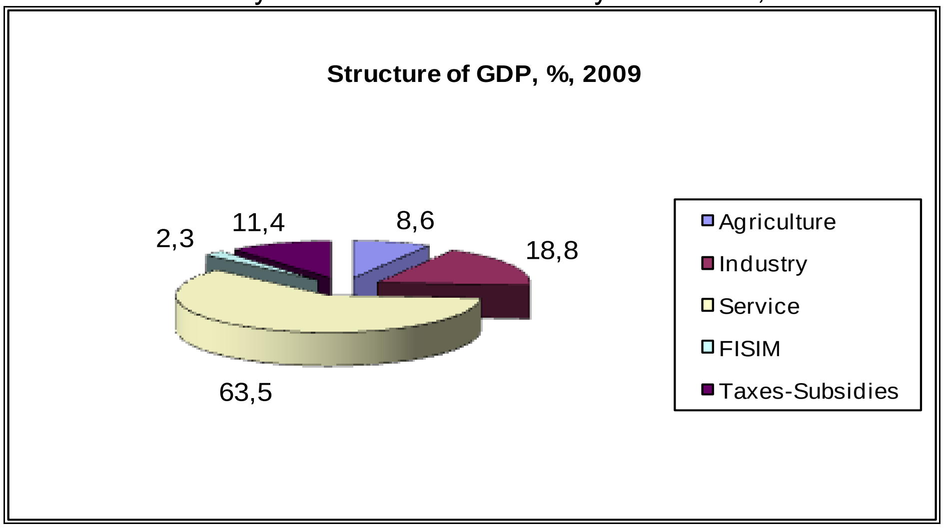
Energy shortages are among challenges that the country faces. Steps are being taken to build a new electricity transmission line to run from Osh in south Kyrgyzstan to Khujend in north Tajikistan. This will connect Kazakhstan's electricity grid to that of Tajikistan via Kyrgyzstan. The Sangduta-1 hydroelectric power plant has been commissioned on 31 July 2009. Hopes are that it will account for 12 percent of Tajikistan's electricity output. In the mid term the country's electricity shortfalls will be removed. Production of aluminum will be recovered and subsequently exports will increase thereby improving the country's external position.

Republic of Turkey

Overview

Turkey, being a member of G-20 countries, is one of world's leading economies. Its population expanded to 72.9 million in 2009. Over the past two years, following the development path similar to that of the countries linked to European markets, Turkey's economy has severely suffered from the recent global financial crisis. In 2009, its GDP growth declined to 4.7 percent level. The GDP at current prices shrank to US$617.6 billion. Reforms ongoing in the country have focused on timely economic stabilization. Increase was observed in the share of agriculture at 13.1 percent compared to 2008, in the services sector at 1.4 percent, and 43.0 percent in financial intermediation services indirectly measured. Reversely, contraction was recorded in the share of industry by 4.5 percent and by 2.5 percent in taxes.

Chart 23. By sector structure of Turkey's real GDP, 2009

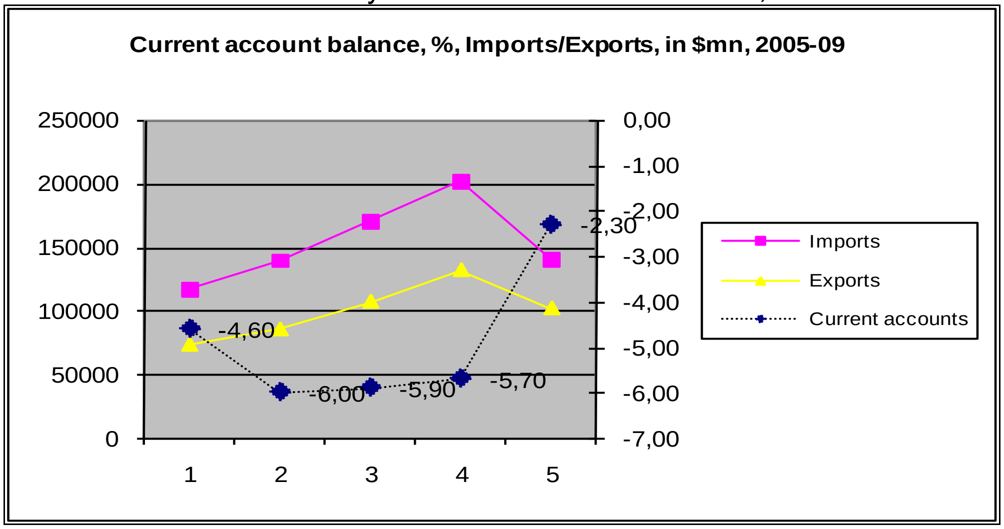


Sources: Turkish Statistical Institute, State Planning Organization

The end-of-the-year inflation moderated to 6.5 percent from 10.0 percent high in 2008. To mitigate inflationary pressures, money supply growth was cut by 69.5 percent. The national currency, Turkish Lira, was forced to appreciate by 16.0 percent. In the meantime, unemployment went high to 14.0 percent in October 2009 compared to its 11.0 percent level in 2008. Projections of inflation in the near term are relatively high if compared to European countries. Thus, in 2010 it will remain at 6.4 percent rate. During 2011, however, it will start contracting and will reach 5.3 percent by 2012.

Turkey's trade during 2009 declined by 27.2 percent. The overall volume fell to US$242.9 billion. Imports shortened by 30.2 percent and exports fell by 22.6 percent against their 2008 level. In dollar value, imports made US$140.8 billion and exports US$102.1 billion. Trade balance equaled US$38.7 billion.

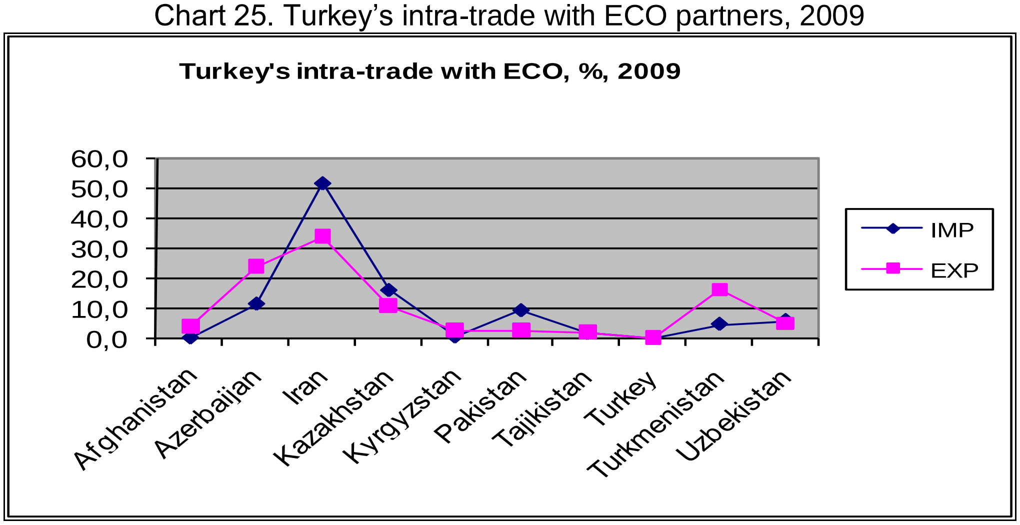
Chart 24. Turkey's current accounts and trade, 2009



Sources: TurkStat, SESRIC

Turkey's intra-trade with ECO stood at US$5.9 billion in exports and US$6.7 billion in imports in 2009. Overall volume decreased by almost 40 percent, reaching US$12.6 billion compared to US$19.4 billion in 2008. Iran was Turkey's largest intra-trade partner in 2009 with 51.3 percent of Turkey's imports flowing from Iran and 33.6 percent exports. In the same year, Kazakhstan accounted to 15.8 percent of Turkey's imports and 10.8 percent of exports. Kyrgyzstan came to be Turkey's smallest traded partner accounting for dismal 0.4 percent of Turkey's total exports and 2.4 percent of imports, only. The country's intra-trade with ECO accounted to 4.9 percent of its total trade in 2009.

Chart 25. Turkey's intra-trade with ECO partners, 2009



Sources: WTO,TurkStat, EBRD

During 2009, Turkey has essentially solidified its financial system. Strong domestic funding base has been installed. Little reliance on external finance has been achieved. Low exposure to toxic products was an advantage for debt restructuring.

Significant cuts in bank interest rates from 16.7 percent to 6.5 percent in 2009, undertaken by the central bank, have strengthened the Turkish financial system. Liquidity injections into domestic markets have helped prevent domestic consumption from downslide.

As a result, the current account deficit has improved to 2.3 percent of GDP (US$ 13.8 billion in 2009) versus 5.7 percent (US$ 41.9 billion in 2008). In spite of the overall decline in world's trade, Turkey's trade deficit in 2009 at US$38.7 billion has improved considerably compared to US$69.9 billion in 2008.

In other sectors, such as tourism, the situation was moderate. The number of incoming tourists increased from 26.3 million to 27.0 million in 2009. Over the past years, Turkey, ranking the 8th among world's most tourist visited countries, received US$18.5 billion revenue in 2007 and US$22 billion in 2008. These are projected to further increase to US$23.5 billion in year 2011. Although the FDI have declined by 61.7 percent to US$6.0 billion against the US$15.7 billion level in 2008, positive changes in reserve money marking US$36.5 billion level by the end of 2009, helped improve the end-of-the -year current account balance.

Furthermore, savings have been maintained at 14.2 percent level in spite of the 14.5 percent fall in overall domestic investments. Revenue collection contracted. Public sector revenue fell to US$203.9 billion, which indicated at 15.6 percent decrease compared to 2008. Furthermore, tax collection marked 1.6 percent reduction in 2009. The overall government budget deficit widened from 1.8 percent in 2008 to 5.5 percent of GDP.

Turkey's external debt increased to 43.9 percent of GDP in 2009. For the past 2007 and 2008, it had been maintained at firm 37.4 and 38.4 percent level. In 2009, however, external debt reached US$271.1 billion marking a 17.3 percent increase against 2008 level. This was partly due to massive transfer of private capital risks to sovereign balance sheets, which was happening not only in Turkey but in most European countries.

Outlook: refinancing the corporate sector will remain one of the main challenges for the economy in 2010-12. According to Turkish authorities, in 2010, the current account balance will be stable at 2.8 percent. It is expected to widen to 3.3 and 3.9 percent during 2011-12. During 2010, the GDP will recover at 3.5 percent. It will gradually reach 4.0 and 5.0 percent growth level during 2011-12. The real per capita GDP at current prices is expected to increase to US$9,590 in year 2010 whereas the GDP is projected to expand to US$669.0 and US$723.0 billion in the years 2011 and 2012. The overall government deficit will shrink to 4.9 percent of GDP in 2010 with further reduction to 4.0 and 3.2 percent in 2011-12. Imports will increase at 8.7 percent and exports at 5.3 percent rate in 2010. During the period 2011-12, imports will start growing at 9.8 and 11.3 percent, and exports at 9.8 and 10.2 percent. These are the projections for the near term economic growth derived from the economic data of international financial organizations such as IDB, SESRIC, WB, Statistical Institute of Turkey, and SPO.

Republic of Turkmenistan

Overview

The effect of the global economic crisis on Turkmenistan during 2009 was dismal if not zero. It had no outstanding debt obligations. The economy succeeded in accumulating substantial money reserves. The external current accounts and the budget balance were in surplus. The average monthly salary increased by 10.9 percent. The real GDP grew at 6.1 percent during 2009.

Spending and saving in the economy had been balanced. The overall government budget was in 2.3 percent surplus. The new budget code was adopted and its implementation has been started during the year. Turkmenistan's Stabilization Fund was established to support the economy against potential 'double dips' of the global recession. The Fund's priority objectives as well as the scope of operations have been identified. All these steps were undertaken in order to enhance accountability in hydrocarbon revenue management and fiscal sustainability.

The resulting impact of the stabilization measures has not been awaited long. During 2009, Turkmenistan's annual inflation equalized at an estimated 0.1 percent level, lowest in the region. The country marked the 16^{th} anniversary of its national currency, Manat (TMM). Over the past years, the economy has taken steps to improve functioning of the foreign exchange system. On January 1, 2009, the fiscal authorities redenominated the currency at the ratio of 1 Manat of the new denomination to 1,000 Manats of the current denomination. These steps were preceded by successful unification of the exchange rate. Foreign exchange restrictions have been removed. Measures to support the new currency were coordinated by fiscal authorities throughout the year. Price system reforms aimed effective resource allocation and economic efficiency. The exchange rate stability was achieved. Price expectations were under close control.

In the banking sector, the new types of deposits have been initiated to encourage domestic saving. Banks became more active in providing new services to customers. Encouragement of domestic investors as well as foreign banks opened competition in the sector. To improve bank oversight, the International Financial Reporting Standards system has been introduced.

Small and medium enterprises came to be major contributors of value added in the industrial production. The highest value added was generated in electric power production, chemical industry, and industrial construction. Physical weight of industries has expanded considerably in 2009. Production of non-ore construction materials expanded at 13.1 percent.

Assembly of necessary ingredients for production of cement for construction increased at 12.7 percent. Production of fertilizers and pharmaceutical goods rose at 11.1 and 11.0 percent, respectively. Growth in manufacturing was strong throughout year 2009.

Chart 26. Growth in industries, 2009

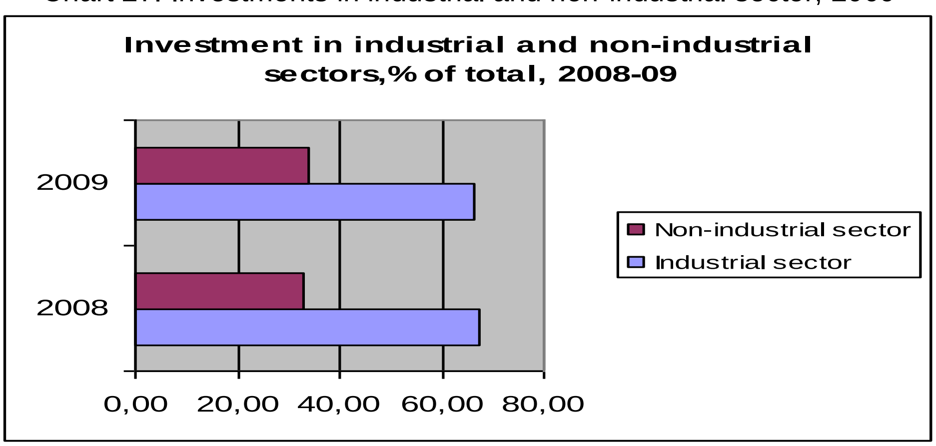
Source: NSO-State Committee for Statistics

Agriculture grew at 8.5 percent rate. Growth in vegetables production rose at 3.9 percent, planting 8.2 percent, fruits 5 percent, grapes 19.9 percent. Due to efficiency increases in livestock breeding, production of meat increased at 102.9 percent, diary products 103.4 percent, eggs 104.5 percent, and wool 104.4 percent. Over 800,000 hectares of land have been cultivated during 2009.

In textile industry, cooperation between Turkey and Turkmenistan has received fresh impetus in 2009. Turkmenistan is currently capable of producing nearly 1 million tonnes of raw cotton. It is one of world's ten top cotton producers. Given such potential, the Turkish Kotam Company has made arrangements to install a cotton-spinning factory. The factory will settle in Dashoguz, in north Turkmenistan.

During 2009, Turkmenistan's investments increased by 1.6 times compared to 2008. The absorption rate equaled 66.4 percent. Overall volume has reached US$8.7 billion.

Chart 27. Investments in industrial and non-industrial sector, 2009



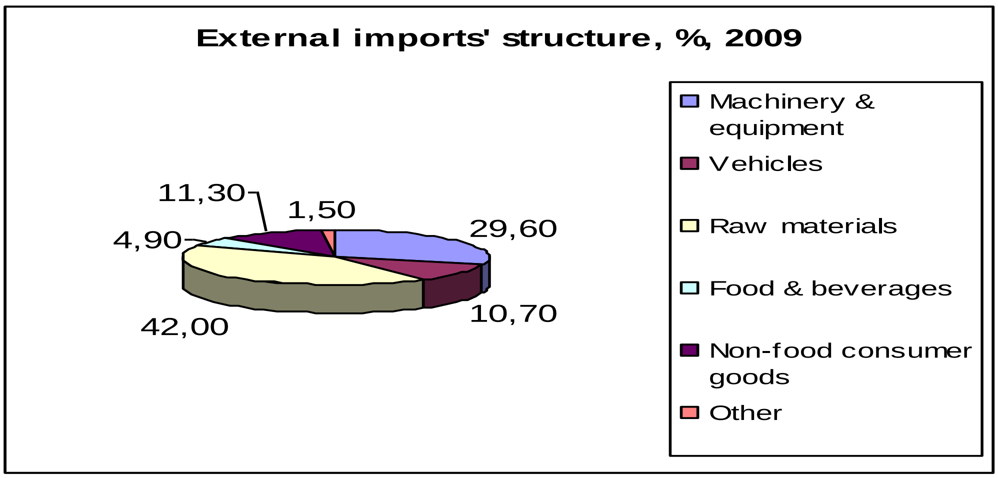
Source: Official website of the Government

Construction industry grew at 2.9 percent of GDP. Services provided in this sector increased at 11.0 percent. Sales in construction services amounted to US$266 million. The total of 448,600 square meter residential housing has been constructed and turned in to local residents. Gas pipelines of 841.5 km in length have been built during the reported year.

Transport sector grew at 5.2 percent of GDP. Cargo transportation shifted 26,378 million tonnes. Upon achieving productivity gains in this sector, salaries of workers employed in transportation, was increased by 21.8 percent.

Turkmenistan's overall trade turnover in 2009 reached US$18,315 million. Exports amounted to US$9,322 million and imports US$8,992 million. Trade was in surplus of US$330.5 million. Compared to 2008, growth in trade increased at 3.8 percent.

Chart 28. Turkmenistan's imports' structure, %, 2009



Source: www.turkmenstat.gov.tm

Outlook: having world's fourth largest gas reserves in its possession, Turkmenistan expects higher revenues from hydrocarbon sales in 2010. These will further strengthen the country's already firm external position. Turkmenistan is a net creditor, according to IMF classification. Ongoing economic reforms, initiated in 2008, will be further deepened. In 2010, the country's GDP at current prices is forecasted to grow at 6.5 percent rate. Turkmenistan is certain to reach the sustainable growth rate in 2010-2011. If succeeded, the economy will become the third fastest growing economy in the region.

Republic of Uzbekistan

Overview

During 2009, Uzbekistan's real GDP grew at 8.1 percent rate. This came to be second highest growth rate observed in ECO region during 2009. At times when global economy was overheated, Uzbekistan chose to pursue conservative policies towards active participation in world's money markets, which was offering attractive and easy short term loans. The economy has created effective links with capital markets but did it prudently, engaging mainly in long term capital rather than in short term loans. Such thoughtful approach of the government has positively impacted the social sector. As a result, the economy succeeded in avoiding the shocks of the global economic recession.

Growth in investment was strong during 2009, including in fixed capital, which has increased at 12.8 percent. The share of domestic investment in the overall capital investment volumes accounted for 68 percent. Real economy sector marked significant rise. The industrial sector recorded 9.0 percent growth rate, food industry 10.3 percent, construction 13.3 percent, services 11.7 percent. To this effect, 371 new manufacturing units have been put into operation in 2009, including in textile 71, food industry 139, construction materials 122, machine building 13, agriculture, forestry 10, and in others 16. Boosted domestic production pushed the real per capita income to grow at 26.1 percent reaching US$1,050 in 2009 compared to US$620 in 2000s.

By the end of 2009, implementation of 156 large infrastructure projects has been completed. The industrial sectors to have benefited from projects outcomes were: fossil fuel and petrochemicals, machine building and metallurgy, industrial construction, cotton production, pharmacy and food industry. In the same year, the long term programme with the focus on technological innovation of key sectors of the economy for the period 2009-14 has been adopted. Implementation of over 300 investment projects is foreseen at estimated value of over US$42.5 billion.

During 2009, sufficient reserve capital has been accumulated. Uzbekistan is a net creditor, according to IMF classification. Its commercial banks' aggregate capital grew at 41.2 percent during the reported period. The economy was saving at remarkable 50.9 percent of GDP, including savings of individual households which stood at 68.8 percent of total. Capital adequacy ratio reached 23.4 percent, three times exceeding a required 8 percent rate set by Basel Standard Committee. Liquidity mass of about US$1.7 billion was sufficient. It was ten times more than the country's external payments outstanding for 2009. Against this background, during 2009, the economy was self sufficient in financing. The share of external financing was minimal at 6.6 percent. The country's fourteen commercial banks accounted for nearly 90 percent of total bank capital. Uzbekistan's economic performance in 2009 was rated stable by world's leading rating agencies such as Moody's, and S&P, and Fitch.

The FDI inflows increased 1.8 times reaching an estimated US$1.9 billion by the end of 2009 compared to US$1.2 billion in 2008. According to World Bank's estimates, Uzbekistan's official reserves in 2009 reached US$11.1 billion. These stood at US$9 billion mark in 2008.

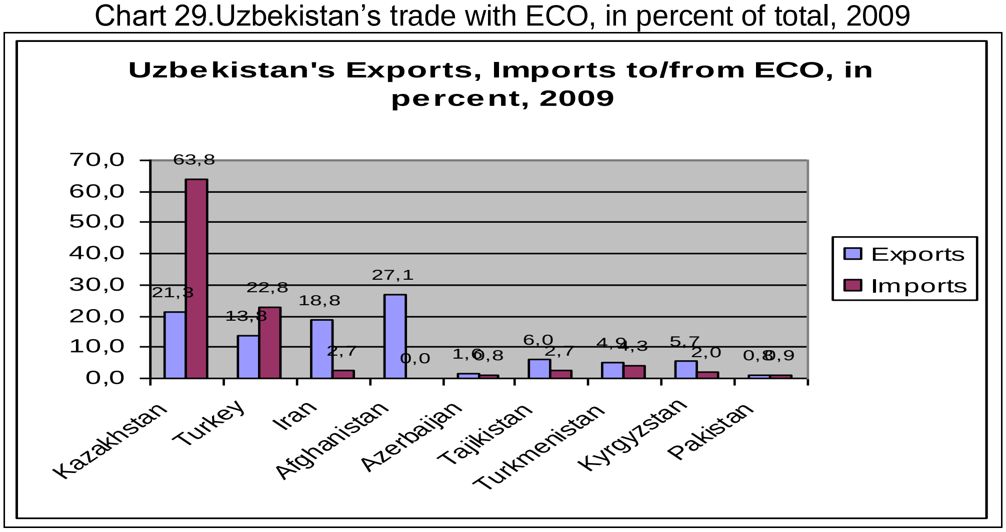
Vibrant real sector dynamics raised the demand for new jobs. 743,000 new jobs openings, including 464,600 in agriculture were created. Of this number, 311,100 new jobs were generated for SMEs. Crediting of this sector has increased by 69.5 percent. Physical weight of SMEs in the manufacturing sector increased by 16.6 percent. Eventually, contribution of SMEs to generation of new jobs accounted for 73.8 percent of total workforce employed during 2009. Production of industrial goods manufactured by SMEs increased at 11.9 percent. Vibrancy in the industrial sector pushed unemployment to decline to 1.1 percent.

During 2009, the services sector expanded significantly. The share of services in GDP rose to 46.5 percent from 44.9 percent in 2008. Growth of services in trade and in food industry went up by 19.5 percent. The volume of financial services provided in agriculture rose at 21.1 percent rate compared to year 2008. Against this background, agricultural output increased at 24.8 percent rate. In other sectors, the services contributed to 6 percent of growth on average.

Given the 7.4 percent inflation rate, the terms of trade, which were favorable for Uzbekistan's exports during 2009, have enabled a US$2.3 billion trade surplus. Such rise was due to continuous demand for gas in Europe and rising gold prices, which remained high throughout two consecutive years. Owing to favorable setup at market, Uzbekistan's exports reached US$9.1 billion and imports US$6.8 billion. Overall trade turnover was estimated at US$16.0. Current account surplus accounted for 11 percent of GDP.

During 2009, Uzbekistan's intra-trade with ECO countries reached US$2.7 billion in total. Exports amounted to US$1.8 billion and imports US$864 million. Uzbekistan's exports to Afghanistan stood at 27.1 and Kazakhstan 21.3, Iran 18.4 and Turkey 13.8 percent of total exports to ECO. The main bulk of Uzbekistan's imports came from Kazakhstan at 63.8 and Turkey 22.8 percent of total imports from ECO.

Chart 29.Uzbekistan's trade with ECO, in percent of total, 2009



Source: NSO-State Committee of Uzbekistan on Statistics

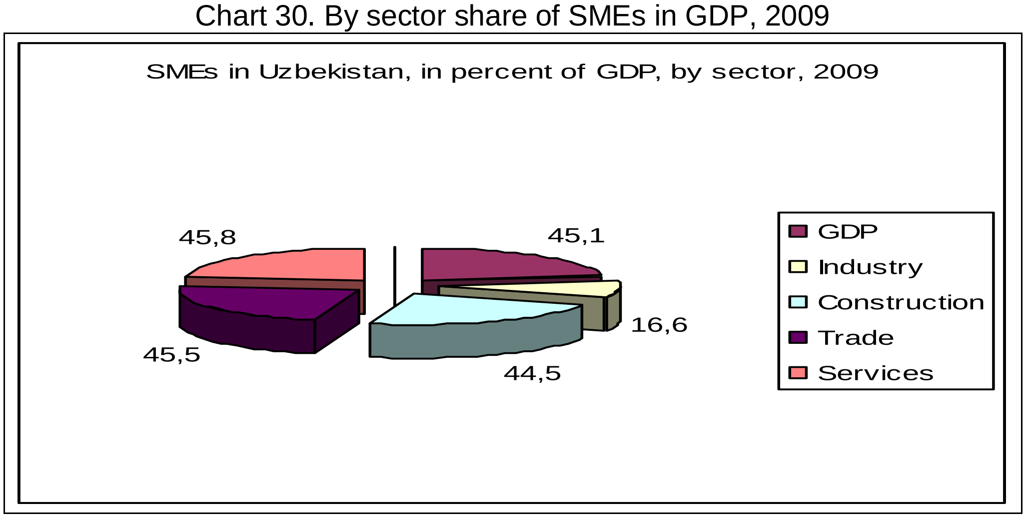
Crediting to real sector increased during 2009. It rose at 34.3 percent to reach US$5.3 billion of which 78.3 percent was for long term period. Over US$1.0 billion of capital was provided to over 48 domestic exporter companies. As a result, exports aiming at effective import substitution amounted to US$2.6 billion. During January-September 2009, the share of locally manufactured goods expanded to 14.9 percent of total compared to 13.1 percent in 2008. Easy terms of crediting offered by Uzbekistan entailed the rise in domestic production of food and consumer goods. To this end, production of consumers increased at 13.7 percent, including on food at 7.7 percent. Production of non-food items grew at 18.6 percent.

Credit capital of over US$4 billion went for purchases of high tech innovative equipment and machinery. These were imported and installed in food processing industries where involvement of SMEs was most. As an example, in meat production only, 107 new high tech mini-plants were put into operation in 2009. As a result, growth in food production rose at 7.7 percent rate, and of non-food items at 18.6 percent. All these measures helped boost domestic consumption.

Debt restructuring eased operating capital of local SME companies. Debt liabilities worth US$377 million have been restructured. These measures resulted in immediate rise of production in machine building and metallurgy at 11.7 percent, chemical and petrochemical industry at 11.3 percent, fuel at 11.3 percent, heavy metallurgy at 11.1percent, and industrial construction at 11.0 percent.

Development of transport infrastructure was in focus of government policies during 2009. Over US$979 million investment capital went to construction and renovation of interstate roads. Construction of solid structure bridges of 457.5 meters in length has been completed. Participation of SMEs in this sector was remarkable. 256.5 kilometers of automobile roads were built to provide access to rural users.

Chart 30. By sector share of SMEs in GDP, 2009



Sources: SESRIC, ECO NSO

<u>Outlook</u>: in light of Uzbekistan's strong economic performance in 2009, the outlook for its growth in 2010 is favorable. Accumulation of considerable resources over the past years supported the ongoing growth at times of crises. This has been one of

the key factors in alleviating the global spillover effects on the economy. With the GDP expected to grow at 8.5 percent rate in 2010, the country's strong fiscal position would opt for further fiscal expansion in the period 2010-11. The country's current accounts will remain in surplus of about 11 percent of GDP during 2010. The country's external debt is minimal, below 10 percent of GDP. The near term risks could be lower inflows of remittances, and potential rise in non-performing loans.

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