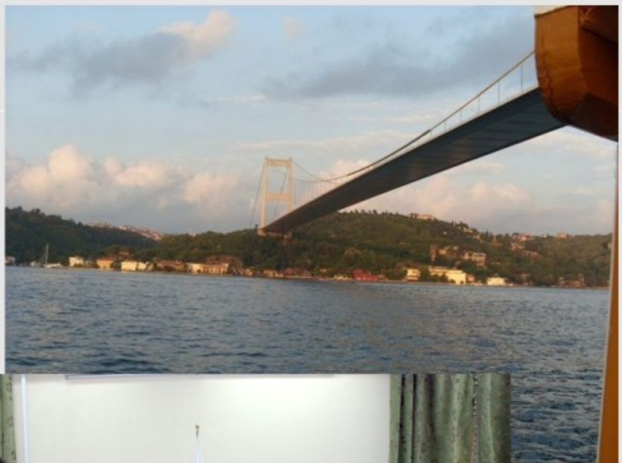
Economic Cooperation Organization

2008

ECO Economic Report



ECONOMIC COOPERATION ORGANIZATION

ECO Annual Economic Report

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Conventions, Data, Assumptions

The Economic Cooperation Organization comprises the following ten member states: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan. The statistical appendix tables (attached) contain the data provided by ECO members. Wherever no official data was provided by members, such other credible sources as IMF, WB, WTO, UNCTAD, UNSD, UNESCAP, SESRIC, UNECE, FAO and UNDP were used. During April and July 2009, some countries made adjustments in their budget indicators as well as the indicators of real economy growth, inflation, trade balance, current accounts, foreign direct investment and debt for the year 2008. Any such adjustments are reflected in the present issue.

In this publication the abbreviation "AER" stands for the ECO Annual Economic Report for 2008. Other abbreviations used herewith, to indicate international organizations, regional and sub-regional entities are authentic to those accepted in the United Nations economic publications. In the AER, the following definitions that are commonly used in key financial institutions of the world refer to: y/y - year-on-year; NEER - a nominal effective exchange rate; REER - a real effective exchange rate.

The following assumptions have been adopted for the figures presented in the publication, namely, the indicators for 2009 and 2010 are estimates derived from forecasted figures shown in country reports for the reported period, and also, from official websites of National Statistical Offices of member states as well as their statistical bulletins. In several instances, the data of central banks of member were used. 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. In the absence of NSO-supplied statistical data, these were derived from IMF, WB, UNSD, UNESCAP, FAO and other credible financial and statistical entities. 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, 2007-08 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, 2007/08) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2008); "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 "WDI" refers to world development indicators; the abbreviation "CER" refers to the Center for Economic Research of the Republic of Uzbekistan; 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 "loan" in reference to the information provided under External Sector of the country report for the Islamic Republic of Iran refers to financing facilities as adopted by local banking system; the term "M2" refers to transactions money plus saving accounts, money market accounts, and other monies of a respective country; the term "local currency" and "ncu" refer to the unit of account used as a national currency in a given country; the term "local or relevant authorities" refers to competent government bodies of a respective country.

The hard copies of the ECO Annual Report 2008 will be provided to member states. Inquiries about the publication may be sent by email to the following electronic address: ders@ecosecretariat.org or registry@ecosecretariat.org, Telephone inquiries may be directed to the following telephone number: + 982122831733/34 ext 254 or 249.

Foreword

The ECO Annual Economic Report 2008 is the 9th edition of the series of this publication to inform member countries of the economic development in ECO. The Report provides an analysis and assessment of macroeconomic trends, including fiscal, monetary, and external sector developments in ten ECO economies for 2008, as well as projections for 2009. It provides a comparative diagnosis of macroeconomic conditions, future growth prospects, and progress in development in the economies of the region.

During 2008, economic growth in ECO was generally moderate. The impact of the global financial crisis, which originated in August 2007 in the United States, was minimal in those economies, of which links with global financial markets were thin and, greater wherever these links were strong. This mixed performance did not underscore, however, the improvement of living standards, which largely sustained social well-being in the region.

Growth projections for 2009 have been adjusted downward by ECO members, reflecting economic slowdown in industrial countries. However, sound policies and structural reforms remain essential for achieving robust, sustainable economic growth in the region in the years ahead.

Macroeconomic policies are expected to remain generally supportive. The economic outlook for the region may reflect positive economic environment of its trading partners.

Important is that Governments play a key role in developing appropriate policy measures and creating conducive environment that will enable the real sector to compete in the global market place.

The Report continues the innovation of the previous year by supplementing the country studies with more detailed analyses provided by member states. In this respect, the Secretariat would like to thank National Statistical Offices of ECO as well as leading experts, statisticians, economists and policy makers in the region for their valuable insights and inputs. Sincere thanks go to ECO’s international partners, including FAO, UNIDO, SESRIC, UN ESCAP and UNECE. The publication would not have been possible without the support of ECO's IT Department. The advice and assistance of the Documentation Office in disseminating the Report are gratefully acknowledged.

Mohammed Yahya Maroofi

Secretary General

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Part I. ECO Regional Development

1.1 Macroeconomic performance of the ECO region in 2008

Overview

During 2008, the global economic environment continued to deteriorate with several advanced countries plunging into an economic recession as a result of the global financial turmoil. The mortgage crisis, which originated in the U.S., expanded globally, severely affecting those financial markets of which links to western banks were strong. The “credit crunch” seriously affected the banking system. Slumping investor confidence emerged as one of unavoidable spill-over effects of the global financial crisis.

Spillover effects of the “global credit crunch” to the world’s real economy sector were immediate. A weakening demand for produce largely depressed commodity prices worldwide. Commodity price projections have been marked down sharply. Oil prices[1]declined by over 50 percent. Metals and food prices have fallen.

Prompt measures undertaken by Governments, helped the economies of the ECO region to adequately respond to immediate after-shock effects of the economic downturn. Member states undertook adequate fiscal and monetary policies to maintain sustainable economic growth. The impact of the global financial crisis on ECO economies depended on the extent of their global interdependence.

Thus, by the end of 2008, Uzbekistan, Turkmenistan showed a 9.5 and 10.5 percent rate of their real GDP. Financial independence of these economies from mortgage-based loans extended by global money markets enabled these to resist pressures of a sharp economic downslide. Similarly, Tajikistan and Kyrgyz Republic maintained an annual 7.5 and 7.9 percent of real GDP. Azerbaijan had shown a spectacular 24.3 percent real economy growth in 2007, which, however, declined to 10.8 percent at end-2008. Even then the country still recorded the world’s highest economic performance during the crisis. Some ECO economies endured unfavorable climatic conditions, such as severe drought in Afghanistan, which resulted in significant crop losses. As a result, growth of GDP at current prices in this country dropped from 11.5 in 2007 to 7.5 percent in 2008. Growth in oil-producing countries, Iran and Kazakhstan, was at 6.7[2] and 3.3 percent of real GDP, respectively.

In view of the global picture, the ECO region’s economic growth during 2008 was maintained at a sustainable annual average real GDP growth rate of 6.9 (chart 1.)

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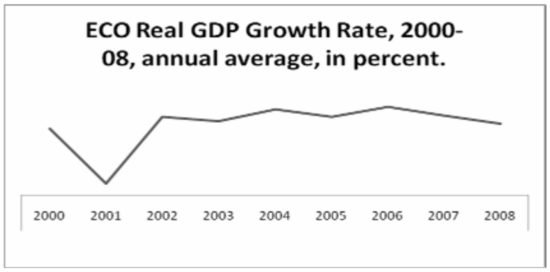
[1] IMF price projections for oil for 2009 have been revised to US$68 a barrel from US$100. The market price for oil is projected to be at an estimated average US$36 p/b for 2009.

[2] According to IMF, Iran’s an average annual real GDP growth rate is 4.5 percent (see World Economic Outlook for 2008)



Sources: Country Reports, UNESCAP, IMF, SESRIC

The overall GDP of the region reached some US$ 1.4 trillion by the end of 2008. The sustained GDP growth rates over the recent years has helped increase income per capita as it increased by 54% from US$ 4,103 in 2002 to US$ 6,337 in 2008.

Prices

In 2008, inflation was on the rise worldwide. In fact, inflationary expectations caused by disruption of the world's financial system, resulted in large price distortions. During 2007 and early 2008, oil prices were on the rise, however, these declined sharply by the end of 2008.

Annual inflation rate for the ECO region was recorded at an average 10.4 percent at end-2008, whereas by the middle of the same year it stood at a high 11.9 percent. In effect, the highest annual inflation rate in terms of the regional performance was observed in Azerbaijan at 20.8, Afghanistan and Kyrgyz Republic at over 20.0 percent[3].

External Sector

A cut back on regional consumption during 2008 was largely in durables and investment. The member states envisaged allocation of supplementary financial resources in their budgets to cushion households against a burden of the global economic recession. As a result, some ECO countries (Turkmenistan, Uzbekistan, and Azerbaijan) had budget surpluses. Revenues of these countries remained largely undisturbed due to their improved tax administration and economic diversification.

Early in 2008, investment in the region declined. High inflation risks necessitated banks in ECO countries to cut their interest rates. The above measure targeted support of economic activity. At the same time, banking sectors of Azerbaijan, Turkey and Pakistan were capable of extending only a minimum lending for domestic investment programs due to redemption of foreign owned assets. Thus, Pakistan's reserves dropped to US$ 6.8 billion by end-October 2008 from their end-June 2008 level of US$ 16.5 billion. In the meantime, as investor confidence started to restore, owing to support through external fiscal stimuli and the increase of the tax base, the total investment volume, as a percent of real GDP of regional countries, improved towards the end of 2008.

[3] The IMF rate for the Kyrgyz Republic is 20.6 percent; the official statistical data reflects 24.5 percent, the country report indicates 20.6 percent annual average.

Gross investment[4] in Uzbekistan, Kazakhstan, Turkmenistan and Iran reached 22.4, 20.0, 19.0, and 18.0 percent of these countries' respective real GDPs.

Some ECO economies (Turkmenistan, Uzbekistan, Afghanistan, Azerbaijan, Kazakhstan, and Iran) observed current account surpluses due to their improved terms of trade. Prudent trade policies were so tailored that an increase in trade volumes was achieved for those commodities, for which the prices remained high during 2008. Likewise, imports outweighed exports compared to the same period in 2007, owing to declining global prices for food and fuels. Moreover, banks in ECO countries undertook measures to hedge themselves against risks of capital outflows by increasing interest rates.

Trade Balance, Exports/Imports

In 2008, the ECO region traded at US$582.8 billion, which compared to US$ 532.5 in 2007, was helpful to resist economic downturn. Exports stood at US$276.0 billion. Imports traded at US$306.8 billion. An overall increase in imports compared to 2007 was 22.6 percent in 2008. Also, a moderate increase in exports reflected geographical dispersion of production, with assembly operations migrating to lower-wage economies; while more developed ECO economies such as Turkey specialized in production of high-value-added components and capital goods.

Owing to decline in international prices for food and energy in the second half of 2008, total imports of ECO members exceeded those in 2007. Thus, Afghanistan's imports registered an increase of 10.1 percent in 2007-08, from US$2,7billion in 2006-07 to US$3,0billion in 2007-08. The increase reflected a deviation from traditionally agriculture-oriented imports to a 29.8 percent increase in imports of spare parts for the industrial sector.

The share of intermediate goods in trade inflows into ECO region has increased to 65 percent, whereas this share in trade inflows among more developed economies, is lower. On the other hand, the share of intermediate goods outflowing from ECO region to the more developed economies is low. Exports to the rest of the world tend to be semi-finished goods.

The pattern of intra-regional trade remained broadly in line with ECO countries' levels of economic development, suggesting a complementary relationship aimed at leveraging differences in comparative advantage among countries in the region.

Over the past years, ECO's growing share in world's trade resulted largely from the increased regional trade integration. While trade flows in the rest of the world roughly tripled between 1990 and 2006, intra-regional trade volume within ECO economies rose steadily from about US$6,030.0 million in 2002 to US$39721.2 million in 2006.

[4] According to the socio-economic report prepared by the Research Institute of Turkmenistan, investment stood at US$1.7[4] billion reflecting a 37.4 percent growth compared to 2007, of which foreign direct investment (FDI) stood at 74 percent of total. The country's investments in the industrial sector accounted for 72.9 (US$856,732) percent of total Turkmenistan's total investment volume reached over US$1.4 billion reflecting a 3.1 times increase compared to the same period in 2007. In Tajikistan FDI inward flows equaled US$388,4 million. These in Kyrgyz Republic grew at 48.3 accounting for 13.2 percent of GDP.

Table 1. Intra –trade in Regional Organizations

Regional Organizations	**Trade (total, in US$ million)**	**Intra trade**	**Ratio**	**Exports (total)**	**Intra exports**	**Ratio of intra-trade to total**
ASEAN (2006)	1224889.4	304893.2	24.89	648147	163862.5	25.28
SAARC (2006)	272000	14114.6	4.85			
ECO (2005)	421239.9	27072	6.42	198897.8	14219.8	7.15
ECO (2006)	43541.0	39721.2	8.21	228144.45	19649.9	8.61
ECO (2007)	532544.7	38000.0	7.14	225126.2	15818.9	7.02
ECO (2008)	582881.0	41420.0	7.11	276066.8	20152.8	7.3

Sources: ASEAN(ar), SAARC (ar), ECO country reports, statdata

A trend in intra-industry trade in the ECO region tracked developments in more advanced economies, but the motivation in the region was different. It rather reflected greater vertical specialization that exploited differences in comparative advantage to build a production network targeting foreign markets. In contrast, intra-industry trade in the developed economies[5] stem primarily from demand for product variety in the context of their large domestic markets. The intra-export ratio of the region reached 7.3% in 2008.

Fiscal and Monetary Policies

As the financial crisis unfolded, markets were exposed to de-leveraging, price declines, and investor redemptions. Emerging equity markets lost about a third of their value in local currency and over 40 percent in U.S. dollars, owing to widespread currency depreciations.

In line with the rest of the world, some ECO member countries had to purchase distressed assets and use public funds to recapitalize their banking sector. The need to provide comprehensive guarantees for outstanding loans was urgency. Acute external financing and liquidity shortages were registered in Pakistan, Turkey and Azerbaijan. Most countries of the region faced drops in credits to real economy. Monetary policies focused on reduction of policy rates by major banks. To sustain production, during 2008, the Governments undertook targeted fiscal measures to support demand. The monetary policies focused on combating de-leveraging, high inflation and investor redemptions.

Outlook

The economic outlook for the ECO region is positive. The combined regional GDP at current prices reached US$1,4 trillion in 2008. The real GDP per capita increased at 22 percent in 2008. With the economic output generated by an estimated 414 million population, the ECO region has upward potential to grow[6].

[5] Under developed economies, this paper implies those, which are grouped under the American Free Trade Agreement and the European Union (NAFTA, EU.)

[6] The ASEAN generated a GDP of US$2 trillion and its population is 570 million in 2008.

However, implementation of required measures, which aim economic stabilization, would be a prerogative for successful recovery from consequences of the global financial crisis. A room to ease monetary policy will be exploited, especially, now that inflation concerns have moderated. Inflation is expected to decrease during 2009-2010.

Fiscal stimuli plans are likely to be implemented as envisaged to support growth and provide a context to restore health to financial sector. The downward revisions of real GDP growth projections for 2009 by some regional economies are likely to be within 0.75-1.0 percent, provided that the countries pursue tight fiscal policies. Such revision is justified by a setback in investment and credit to economy. The FDI flows into the region will likely to decline by almost 30 percent against the previous forecast due to redemption of foreign owned capital in some member economies. However, provided that *ceteris paribus* is effective, the forecast of regional growth for 2009 would be a continued regional growth. Effective involvements of members' stabilization funds, as well as stimuli plans, are viewed to support rapid economic recovery of the region.

Recent moderation of inflation risks has created the way for major banks to cut their interest rates. These in 2009 are assumed to be at least one percent lower than in 2007-08. The change in interest rates will depend on the financial health of member economies: some will increase their interest rates to combat capital outflows whereas others will lower these to support economic activity. Fiscal stance is projected to be broadly neutral in 2009.

Non-financial corporations may be actively involved to help forestall a major cutback of investment. The Governments may be likely to strengthen their public-private partnerships to encourage domestic investment to boost demand and domestic consumption. Under such conditions, economic activity could recover completely within 2009-2011.

Trade would remain strong. Intra- regional trade will likely increase due to enhanced intra-trade transactions, which increased by 3.8 percentage points in 2007-08. The economic growth of the region would remain stable .

II. <u>Developments and Initiatives in Main Fields of ECO Co-operation</u>

Trade and Investment

The ECO Trade Agreement (ECOTA) has come into force from March 2008. The tariff concessions under ECOTA are likely to be implemented soon upon finalization of the lists by the Contracting Parties. ECOTA is a comprehensive agreement aimed at promoting free trade in the region. It is consistent with WTO and other multilateral arrangements. It will be implemented gradually over an eight year period and will scale down tariffs to a maximum of 15 percent on eighty percent of the goods traded. A Fast Track Approach upon its implementation will scale down tariffs to a maximum of 10 percent within 5 years.

In the field of investment, ECO is quite ahead of other regional organizations in having finalized a Framework Agreement on Promotion and Protection of Investment (APPI). The agreement has , so far been signed by the Islamic Republic of Afghanistan, Republic of Azerbaijan, Islamic Republic of Iran and Republic of

Turkey. With the implementation of APPI, the Foreign Direct Investment inflow into the region is likely to increase manifolds.

A landmark achievement is the establishment of ECO Trade and Development Bank, set up jointly by Iran, Pakistan and Turkey. Lately, Afghanistan, Azerbaijan and Kazakhstan have also shown interest in joining it. The bank has been set up with a paid up capital of SDR 300 million equally contributed by the three member states. The plans for opening of ECO Bank Representative Offices in Iran and Pakistan are also in final stages. An ECO Reinsurance Company has been agreed to be set up shortly. The Articles of Agreement have been finalized by the Trilateral Interim Committee that met in Islamabad in May 2007. The company is expected to be in place later during 2009.

As part of efforts to scale up intra-regional trade, customs cooperation is given due priority. The ECO Council of Heads of Customs Administration (CHCA) holds regular meetings. It is working, inter-alia, on harmonization of customs regulations, simplification and streamlining transit trade procedures and facilitation at the border stations. The ECO Smuggling and Customs Offences Data Bank is in final stages of being set up with the objective of discouraging illegal trade of goods and narcotics across the borders of regional countries. The decision of the 3rd Ministerial Meeting on Finance and Economy (Tehran 21-23 December, 2008) on ratification and implementation of the ECO Agreement on Establishment and Operation of ECO Smuggling and Customs Offences Data Bank during 2009 will be a major step forward in areas of customs cooperation.

Cooperation in the field of finance, banking, inflation targeting and the fight against corruption/money laundering stand high on the agenda of Ministerial Meetings on Finance and Economy. The last such meeting, held in Tehran in December 2008, took important decisions for strengthening cooperation in these important fields. The 1st Meeting of the ECO Heads of Central Banks held in Karachi in April 2007, took major steps to enhance cooperation in various fields of banking. The 2nd HCB Meeting will be held in Tehran shortly. An Experts Group Meeting on Cooperation against Corruption and Money Laundering (Ankara, May 2008) and a Workshop on Inflation Targeting (Izmir, May 2008) have helped in developing roadmap for the regional countries in exchange of experiences in specialized areas. The draft ECO Agreement on Prevention of Corruption and Money Laundering, prepared by Pakistan will be finalized in the upcoming EGM to be hosted by Kyrgyzstan in 2009.

Progress is underway on simplification of visa procedures for businessmen of Member States. The Draft Additional Protocol on Simplification of Visa Procedures for Businessmen and Transit Drivers of ECO Member States and the Revised Plan of Action are expected to consider the Drafts for final approval by the 18th Council of Ministers (COM) meeting to be held in Tehran from 7-11 March, 2009. The Agreement would facilitate issuance of visas to businessmen and transit drivers and thus bring the trading communities of member states closer to each other.

The private sector has an important role in promoting regional trade. The ECO Chamber of Commerce and Industry (ECO-CCI) has been reactivated with its headquarters established at Istanbul for a period of three years. The General Assembly and Executive Committee meetings of ECO-CCI are held on more regular basis. Besides, ECO Business Forums are also held to project private sector activities for increased cooperation. The 2nd ECO Trade Fair held in Karachi on 23-26 July 2008 was the biggest event ever organized under the auspices of ECO. Considering the importance of fairs and exhibitions in promotion of trade, ECO is determined to hold such activities on regular annual basis. During 2009, the 3rd ECO Trade Fair and the 1st ECO Printing and Packaging Fair are planned to be organized by Kazakhstan and Iran respectively. ECO is all set to shift the focus to the Central Asian Member States as a number of events are scheduled to be hosted in these countries to strengthen private sector cooperation.

Having successfully put in place necessary legal instruments relating to increased cooperation in trade, investment, finance customs and visa simplification etc, ECO has lately embarked on a plan to create institutional mechanisms to intensify the process of regional integration. The Trade Officer Working Group (TOWG) has been established on permanent basis. This forum holds meetings in the ECO Secretariat as well as the Embassies of the Member States for exchange of information on the progress and plans in areas of trade, investment, finance and private sector cooperation. The establishment of Trade Promotion Organization (TPOs) Forum is another initiative for harmonizing plans and promotional activities of TPOs of the regional countries. The1st Meeting of Heads of ECO TPOs was held in Tehran on January 18-19 2009, taking important decisions for strengthening cooperation among the TPOs of the Member States. The Member States have agreed on planning and coordinating their annual Fairs, Delegations, Market/ Product research and other promotional activities on a regional basis. Consultation process has been initiated to formalize cooperation among TPOs through an Agreement on Organizing Joint Trade Promotional Events.

Already, ECO decision making bodies have accorded approval to the establishment of new institutional arrangements which are now in the process of being established during 2009. These include ECO Heads of Investment Promotion Agencies, ECO Heads of Tax Administrations, Stock and Commodity Exchanges, Women Entrepreneurs Forum and Young Entrepreneurs Forum.

Two major projects, ECO-UNIDO Project on "Trade Capacity Building of ECO Member States" and ECO-PIDE Project on the "Study on the Trading Patterns in the ECO Region" have been launched. The 1st phase of the ECO-UNIDO Project was completed in 2008, under which surveys on Standards Metrology, Testing and Quality (SMTQ) as well as Barriers to Trade was carried out jointly by ECO and UNIDO teams. Finally, an Expert Group Meeting held at the ECO Secretariat in December 2007 formulated the recommendations. The project was funded jointly by ECO and UNIDO. The 2nd phase of the project funded solely by UNIDO aims at imparting training to the technical staff of relevant organizations of Member States. The Project would lead to an understanding among the Member States on signing a Regional Mutual Recognition Agreement. ECO, for the first time will be hosting an international symposium in Pakistan during November/December 2009 to mark the conclusion of the Project.

To facilitate exchange of trade data and its dissemination to the maximum possible extent, ECO Trade and Investment Network Web Portal (www.tradeeco.org) has been activated. The web portal will establish regular linkages between the Secretariat and trade and investment promotion agencies of the Member States. The Member States have been requested to expedite nomination of their National Focal Points for Web Portal. Member States have been requested to make necessary preparations for Orientation Seminars on the Operation of ECO Web Portal, to be conducted by the ECO experts during the first half of 2009.

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, six 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 15-20 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, Heart) 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). Afghanistan, offered to host the 2nd Meeting of the HLEG in 2009.

The 19th RPC Meeting recommended establishing a 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.

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. Since the 17th COM Meeting, the TTCC and its auxiliary bodies have held six meetings in 2008.

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 would be held during 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. Meanwhile, it is essential to have the voluntary contributions by the Member States, as emphasized by the 17th COM. Therefore, it is suggested that each member state may consider an initial amount of US$150,000 to the TTFA Fund on voluntary basis.

Hosting the meetings of the TTCC is based on alphabetical rotation. Accordingly, the 3rd TTCC Meeting decided that its 4th Meeting be held in Kazakhstan. To avoid problems arising from having technical committees of the TTCC held in different dates and venues. The Meeting also decided to hold the next meetings of the auxiliary bodies of the TTCC back-to-back with the 4th TTCC Meeting in 2009.

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 the Kyrgyz Republic in 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$60,000 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. So far, Iran Turkey, and Turkmenistan have done so. International consultants are also being recruited to lead the study. A preparatory Meeting would be held during 2009.

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 2009.

An outline each of the three regional projects to upgrade the capacity of Sarakhs Station (Iran), improve Taftan-Quetta railway (Pakistan), and build railway by-pass around Van Lake (Turkey) has also been forwarded to IDB. The Bank has expressed interest in the Projects, and awaits official requests from the concerned Governments.

Revitalization of the China-Middle East-Europe Corridor

The ECO Programme of Action for Revitalization of the China-Middle East-Europe Corridor was first drafted in 2004. The Meeting of five countries en-route the Almaty-Istanbul Container and Passenger Train (11 December 2008), the concerned member states and China's delegation agreed to reformulate and implement the Action Plan with China's active involvement.

The Islamabad-Tehran-Istanbul Train

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 Meeting was preceded by a High Level Working Group. The second Meeting of the HLWG will be held in May 2009. According to the decision of the Ministerial Meeting, the Demonstration Train will be inaugurated on 14th August 2009, initiating its travel from Islamabad to Istanbul via Tehran. Contacts 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 Container Train and the planned Islamabad-Tehran-Istanbul to Europe.

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 would be held in Kazakhstan in 2009 under the auspices of this Study. This meeting might be organized back-to-back with the 3rd Meeting of the Railway Committee of the TTCC.

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 next 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.

The Secretariat prepared the guidelines for organizing the national workshops and contacted the Member States to hold the workshops within the given deadline. 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.

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. They 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.

UNCTAD has agreed to consider providing technical assistance to develop a regional study on implementation of the UN Almaty Programme of Action to Address the Special Needs of the Landlocked and Developing Transit Countries in the ECO region.

Turkey will host a Workshop on Regional Cooperation for Maritime Training in 2008. This workshop would finalize a long term programme for Maritime Training in the ECO. The Islamic Republic of Iran offered to carry out a regional study on ways and means for implementation of the marine related Articles of the TTFA.

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 2009. 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), the Secretariat is in close contact with the Member States to organize a workshop on privatization of postal services and cost accounting (in Iran) and a specialized committee meeting (Turkey) to work out the technical and operational aspects of establishing linkages between the postal financial services and e-shopping facilities of the Member States. The design of the ECO Postal Website if 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. The 5th Meeting of ECO Postal Authorities will be held in Pakistan in 2009.

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.

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. 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 2009 in Tajikistan. The Plan of Action would be high on its agenda for decision on extension, possibly with new proposals.

An important priority of the Plan of Action is the interconnection of power systems of member states. The Contract on the Consultancy Services was negotiated and signed with NESPAK, Pakistan on 20th June, 2005. The feasibility study, funded by IDB, commenced in August 2005. It was to be completed by April 2007. The 119th CPR meeting (December 2006) designated Pakistan as the coordinating country for inter-connection of power systems of the member states.

As per the Terms of Reference, the study would be conducted in close cooperation with the Member States. Each member state was requested to nominate a Focal Point and provide requisite data for timely completion of the study. Unfortunately, it suffered a significant delay, due mainly to late submission of data by some member states and non-submission by others. The deadline for completion of the study had to be extended to April 2008.

The 7th Meeting of Specialized Experts Task Group (SETG) on power (February 2008, Islamabad) reviewed the matter and agreed that a new schedule for the study be finalized by end February 2009. The SETG specified a timeframe for Interim Reports No.1, No.2 as well as the Draft & Final Reports of Study. Under the new schedule, the Inception Report based on the data provided by 8 countries (except Turkmenistan and Kazakhstan) would be followed by the Interim Report No1. It should be presented to the Secretariat no later than August 2008. This deadline could not be met. In view of repeated delays and with no prospects of making these up, IDB informed the Secretariat of having to close the project on December 31, 2008 and the consequent need to terminate the contract with the Consultants. Accordingly, the Secretariat issued a notice to NESPAK for terminating the Contract on Consultancy Services.

The 19th RPC called on the Secretariat to analyse and consider the reasons behind the termination of the study, in collaboration with the coordinating country, and also stressed on the need by the Secretariat and the coordinating country to elucidate the lessons learnt and examine effective measures to salvage the available data. It further recommended that the Secretariat continue exploring power projects for possible financing by IDB and other international partners. The Secretariat is waiting for the proposals of the Member States in this regard.

The Secretariat has been in contact with the World Bank regarding a study on regional energy trade. This matter was in focus of 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 keen interest in the WB study "South Asia: Policy Paper for Regional Energy Trade, Trading Arrangements and Risk Management in International Electricity Trade". They noted the study's insights into energy systems, policy and institutional framework of the ECO countries and their potential for energy trade. They discussed the prospects of investments in power generation and transmission. 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 a 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. It is expected that consideration 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 9 years ago (November 2000, Islamabad) and implementation of the Plan of Action for Energy/Petroleum Cooperation in ECO Region 2001-2005 was extended up to 2010 by 17th RPC, it now requires a review, to carefully re-draft it. With the agenda of the Ministerial Meeting having considerable worthwhile matters, it is deemed 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.

Cooperation in the energy sector is among the three top priorities of ECO. Important decisions need to be taken to carry forward cooperation in the energy sector. It is therefore necessary that the 2nd ECO Ministerial meeting on Energy/Petroleum be held without further delay. Tajikistan offered to host the meeting in 2009. 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 the 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 afore-mentioned 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 2009.

Turkey hosted eight Training Courses on Energy Efficiency and Conservation since 2002, under the auspices of the General Directorate of Electrical Power Resources Survey and Development Administration (EIE), and 58 engineers from the ECO countries participated in these courses. The last course was held on 25 May – 8th June 2009 in Ankara. These 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 training was found very useful by the Member States. These courses are planned to be organized in the coming periods.

During the course of the 19th RPC meeting, while stressing the importance of cooperation and exchange of experiences among member states in the field of refinery, Iran proposed to hold three workshops on 'Processing of Heavy Cuts', 'Petroleum Products' and 'Refining Processes of Petroleum Products' in 2009. The Secretariat is following up with the Iranian authorities on the Workshop.

Taking into account the importance of development of renewable sources of energy, which are friendly to Environment, 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 18th RPC meeting welcomed the readiness of the 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 convened in 2009 in Tehran. Turkey will also host a Workshop and Exhibition on Renewable Energy Sources in September 2009 and Pakistan will hold a one day seminar on the subject on 27 October 2009.

Minerals

In the field of Minerals, the publication of the first version of ECO Mineral Data Booklet (MDB) became a useful development. It was published and distributed by the Project Manager (Turkey) during the 3rd ECO Mineral Experts Group meeting (Islamabad, December 2006) with the inclusion of the mineral data of four member states, including Turkey, Pakistan, Azerbaijan and Kyrgyzstan. Currently, the Project Manager is working in coordination with the national focal points of member states for publication of a revised edition of MDB. It will be published with the inclusion of data from other member states, if the number of countries, which conveyed their respective data, be seven at least during the first half of year 2009.

A meeting of the ECO Heads of Geological Surveys was held in May 2007, in Tehran. Iran, as the Project Manager, offered to help to establish the ECO Geosciences Database and, to that end, prepare a feasibility study and compile a Mineral Distribution Map (MDM) of the ECO Region.

The necessary formats were developed by the Project Manager for the above said ECO Geosciences Database, MDM. These have been circulated to the member states with the request to submit the requisite data to the Project Manager in the first half of 2008. To facilitate the above projects, Iran has since allocated USD 250, 000/- for the feasibility study on ECO Geosciences Database, 130th CPR meeting (12 December 2007) approved USD 50,000/- in partial funding for the project. In addition, the Geosciences Organization of Iran (Project Manager) hosted a Training Course for experts from the member states involved in the preparation of ECO Geosciences Database. This three-week training course was conducted in February 2008, in Karaj, Iran. Twelve experts from Afghanistan, Azerbaijan, Pakistan, Tajikistan, Turkey and Turkmenistan participated in it.

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 on the subject. The 3rd ECO Ministerial Meeting on Environment (Almaty, 30 June 2006) extended the Plan of Action up to 2010 and decided that Member States submit their National Progress Report on implementation of the above Plan of Action in the beginning of each year, to enable the ECO Secretariat to prepare an integrated 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 18th RPC Meeting requested the Secretariat to follow the decisions of the 3rd Ministerial Meeting on Environment regarding the Institute of Environmental Science and Technology (IEST), taking into consideration the proposed modality for the establishment of ECO Regional Centers to be approved by the Council of Permanent Representatives (CPR) on behalf of the Council of Ministers (COM).

The 1st Expert Group Meeting on Ecotourism was held in Ankara from 1 – 3 December 2008. The participants were briefed on the 1st Task Force Meeting on Ecotourism (Tehran, December 16-17, 2007). The most important outcome of this Meeting was the finalization and adoption of the Plan of Action on Cooperation of ECO Countries in the field of Ecotourism for the period 2009-2013, which had been prepared by the Republic of Turkey, as per decisions of the First Task Force Meeting. The meeting agreed that a Coordinating Country would be designated to make necessary arrangements and coordination among the Member States for the implementation of the Action Plan. The member states should offer their willingness to the Secretariat, within two months, to act as a Coordinating Country. The meeting welcomed and approved the outline proposed by Iran for the provision of information to establish a data-base of ECO Countries in the field of Ecotourism. The Meeting also agreed with the Iranian proposal that the database might be established by seeking funds from international resources. It was agreed that further discussions be made at the 2nd Expert Group meeting on Ecotourism, which would be hosted by one of the member states.

The Secretariat has been issuing the ECO Bulletin on Environment. The first six issues were published in 2005-2008 and the seventh issue is to be published in early 2009. Member states have been requested to submit articles for the Bulletin on regular basis. All the above issues are available on the ECO Web site. The Secretariat is to publish the 8th issue of the Bulletin in late 2009.

The 18th RPC Meeting endorsed the report of the First ECO Experts Group Meeting on Biodiversity (Islamabad, 24-25 April 2007) and the Work Plan on Biodiversity in ECO region as well as Calendar of Events in this field. As per the calendar of events on Biodiversity for 2007-2015, Iran, Pakistan, Turkey and Turkmenistan have conveyed their willingness to host the events in 2009/2010. Other member states were also requested to host some events. Kazakhstan was requested to expedite indicating exact dates and venue for hosting the 2nd Experts Group Meeting (EGM) on Biodiversity in the second half of 2008.

The 5th Meeting of the ECO Working Group on Environment was held on 22-23 May 2008 in Baku, the Republic of Azerbaijan. The meeting, *inter alia*, considered the follow-up of implementation of the decisions of the 3rd ECO Ministerial Meeting on Environment as well as the implementation of the Plan of Action on Environment (upon 2010), Iranian Project Proposal on "Development and Harmonization of the Environmental Standards, progress on the Establishment of an Email Group for the Exchange of Environmental Information, establishment of Institute of Environmental Science and Technology for ECO Region, ECO Green Industry Award, ECO Regional Work Plan for Conservation of Biodiversity, Watershed Rehabilitation, Ecotourism as well as Calendar of Events in the field of Environment (2008-2009). The meeting also deliberated the issue of ECO Bulletin on Environment. It was agreed that the bulletin be published twice a year in order to achieve the quality of the contents. The meeting welcomed the offer of the Islamic Republic of Iran to host the 6th Meeting of the Working Group on Environment in 2009.

The 5th WGM on Environment was informed that Pakistan would host the 4th Ministerial Meeting on Environment preceded by the Senior Officials Meeting on 17-19 November 2008 in Islamabad. But later, the concerned authorities postponed the meeting and it is expected to be held in April 2009.

Industry

As highlighted in the Istanbul and Lahore Declarations adopted by the 1st and 2nd and 3rd Ministerial meetings on Industry, the industry ministers pointed out that the ECO initiatives for Pan-ECO Industrial

Cooperation Strategy are a part of a series of responses to the new global realities that have made regional cooperation strategically imperative. The contemporary evidence, in a compatible socio-political environment, demonstrates that a strong political will to redefine participation of a nation in regional as well as world economy and accept multi-level governance, shared sovereignty and multiple identities is key to success of a regional cooperation set up.

The ECO Region is in the midst of time of change, challenge and opportunity. The divergence of economic landscape, business environment, industrial structures and investment policy agendas offer great challenges as well as enormous opportunities for mutually beneficial and sustainable cooperation between the ECO Member Countries.

The ECO Governments adopted key documents: (i) *Tehran, Istanbul and Lahore Declaration for Industrial Cooperation* (ii) *Plan of Action for Industrial Cooperation,(iii)* ECO Regional Strategy On Industrial Cooperation, (iv) Plan of Action for ECO Cooperation in the field of Entrepreneurship and SME Development, (v) Plan of Action on Establishment of ECO Technology Transfer (ETT Center), Plan of Action for ECO Cooperation on Industrial Property Rights , (vi) Plan of Action on Privatization and Private Sector Development and considered the Draft Statute of ECO Regional Institute for Standardization, Conformity Assessment, Accreditation & Metrology (RISCAM) .

To assist privatization authorities in ECO countries in sharing their experiences and informing of privatization trends at regional and international levels, the two High Level Experts Group (HLEG) Meetings on Privatization and three ECO Meetings of Heads of Privatization Administrations were held in Tehran, Islamabad and Antalya. According to the last meeting, held in April 2008 in Antalya, it was considered that the Draft Plan of Action for establishing the ECO Website on Privatization, which was prepared by the Working Group meeting held in December 2007 in Tehran, decided to submit it to the 3rd Heads Meeting of Privatization Administration for final approval. The Meeting also decided that the task force group established by previous meeting held in Islamabad to work on the cooperation of the stock exchanges of the member states would meet in Iran in 2009.

The 1st ECO Permanent Committee Meeting on Technology Transfer Center was held on 30-31 October 2007 in Tehran. Iran as a coordinator in the field of technology transfer and management presented four project proposals pertaining to the establishment of the ETT Center as identifying potential transferors and transferees in ECO region and supporters of Technology Transfer process in ECO region, ETT Center establishment – Phase 0 and improving the contents, forms and functions of ETT Center website. The meeting agreed with the proposed projects and decided that implementation of the two first projects be started with immediate effect under the coordination of Iran. The meeting requested ECO Secretariat to provide finance for phase one and two from its Feasibility Study Fund ($50,000/- for each project). The estimated duration of each project is one year. It was also decided that, for implementation of phases three and four, the Permanent Committee under coordination of ECO Secretariat would seek finance from donors and international organizations.

The 18th RPC held in March 2008 in Islamabad welcomed the agreement on above mentioned four project proposals. The Council requested the CPR to consider allocating US$50,000/- from the Feasibility Study Fund for phases 1 and 2 each for immediate implementation. The estimated duration of each project is one year. The Council recommended that for the implementation of phases 3 and 4, the Permanent Committee under the coordination of the ECO Secretariat would seek funding from donor organizations.

The 1st ECO Steering Committee Meeting on Entrepreneurship and SME Development was held on 14-15 January 2008 in Tehran. The Committee considered and agreed on the following proposals, which are envisaged in the Plan of Action on SMEs:

- Proposal by Iran of a Research Project for Establishing ECO SME Fair.
- Proposal by Pakistan of Digital Information Exchange Network for ECO (IDENE).
- Proposal of Turkey on Training Workshop(s) on Best Practices by KOSGEB.

<u>Upon detailed discussions on above listed proposals, the Council decided as follows</u>:

- The interested countries would prepare their proposals in full details and form required by the plan of action for implementation, by the end of March 2008.
- The ECO member states are expected to convey their views/comments/contributions for this preparatory process.
- The plan of action for implementation of proposals would include a well detailed list of activities with set deadlines.
- At the forthcoming HLEG and Ministerial Meeting on Industry, member states would be asked to make commitments for above stated activities listed in the plan of actions for implementation of proposals.
- The Iranian proposal of SME fair is envisaged encompassing a number of sideline activities as business forums and entrepreneurial workshops.

During the meeting, Iran and Pakistan bilaterally considered the proposal by Pakistan on establishment of industrial estates/clusters in border cities/areas. The meeting also considered establishment of industrial estates/clusters in industrially under-developed areas in ECO member countries. The representative of Iran informed the meeting that Iran has already established industrial estates/complexes in border cities with Afghanistan. Iran has also established an industrial estate in Tabriz for Turkish investors.

The 17th Regional Planning Council (RPC) held on *February 19-22, 2007 in Tehran* took note of Iran's offer regarding the establishment of Nanotechnology Networks and requested it to prepare a project proposal for circulation among member states for their views and comments. Iran prepared a project proposal on establishing the aforesaid network in May 2007. This project proposal was circulated among all member states The 18th RPC, held on March 3-6 in Islamabad, appreciated Iran's efforts for hosting the 1st Taskforce Meeting on Establishment of ECO Nanotechnology Network.

<u>Main goals of establishing the network are</u>:

- Promoting nanotechnology in the member countries.
- Developing capacities in members and public awareness in the region.
- Promoting trade co-operation among members.
- Facilitating technological and economic communications.
- Installing solid infrastructure of high-tech enterprises.
- Creating added economic value and facilitation of transfer of new technologies into products for economic growth, jobs, and other public benefits.

The 1st ECO Taskforce Meeting on Establishment of ECO Nanotechnology Network (ECO-NAN) was held on 20-21 May, 2008, in Tehran, The meeting, after lengthy deliberations, agreed on the Project Proposal and decided to submit it to the June meeting of ECO Council of Permanent Representatives (CPR) for approval and further to 18th ECO Council of Ministers in October 2008 for final approval. The meeting elaborated on the draft Work Plan for the Establishment of Nanotechnology Network, prepared by the Islamic Republic of Iran, at length and made some modifications.

Tourism

The 1st HLEG Meeting on Tourism held on 11 13 December 2006 in Tehran considered the current status of tourism in the region and discussed various issues relating to the cooperation in tourism development, including promotion of private sector and simplification of visa procedures for tourists. The meeting decided that ECO Cultural Institute (ECI) would prepare the ECO Tourism Guidebook in collaboration with the ECO Secretariat using information and data from member states. It was also decided that 80 percent of the cost of preparation of the Guide Book would be covered by Iran. The Meeting agreed on a revised version of the Draft Plan of Action on Tourism and approved ECO Tourism Promotion Fund to finance development of the tourism sector. It was also agreed that the First ECO Tourism Fair will be held in Tehran on ECO Day, 28th November 2007.

The 2nd HLEG Meeting on Tourism was held on 11-12 June 2008 in Baku. It reconsidered the process of implementation of the ECO Tourism Guidebook and requested member states to fully cooperate with the ECO Cultural Institute in preparation of the Guidebook. The meeting also considered the Modality to Establish the ECO Fund for the Promotion of Tourism in the region. It requested member states to provide the Secretariat with views about the Modality of the Fund and welcomed Iran's offer to allocate US$50,000/- to the Fund upon establishment. Iran offered to host the First ECO Ministerial Meeting on Tourism in November 2008.

Human Resources and Sustainable Development (HRSD)

After its establishment, the Directorate of Human Resources and Sustainable Development" (HRSD) has succeeded in identifying its core priority activity areas. Against this backdrop, new areas have been singled out, including on cooperation on disaster management. In view that ECO region is a disaster prone area, there is a hope that member countries would establish effective interaction in this field.

Regional cooperation on health related issues is another dynamic area of cooperation among ECO member states. This field has been revisited during recent years. Active participation and positive feedback of member states via the events, which have been organized by the HRSD directorate, reflected acute interest of members in this area. In upcoming years, this field of cooperation would grow into a distinctive area.

Review of implementation of MDGs in ECO region

MDGs, which emanated from the Millennium Summit held in December 2000, became key strategic tools for raising awareness, advocacy, alliance building, and renewing the political commitment towards the promotion of Sustainable Human Development at country level based on a global consensus. The MDGs represent a simplified framework for monitoring international commitments of member countries and provide a platform for all partners, which could potentially build into a broad based campaign for financing the global development process

The fight against human poverty in all its dimensions, and promotion of sustainable human development particularly within the context of the Millennium Development Goals (MDGs) remains the overall priority for the Government of ECO member states and ECO as an intergovernmental organization.

Capacity building to strengthen national capacities and processes, and support the mainstreaming of the Millennium Development Goals into national decision-making as well as support to member states in achieving MDGs by setting the time-frame, i.e. 2015, was core objectives set forth back in January 2006 before the HRSD to follow up the MDG process within the region.

Although rapid was the progress of the ECO region towards achieving the MDGs, as adopted by the Millennium Declaration in the United Nations Millennium Summit in September 2000, no country seems to be currently on track to achieve all the MDGs by the set deadline, i.e. 2015. However, some member states are lagging behind, or moving away from the targets.

Identifying regional programmes in the above fields is an important new scope of ECO activities. In fact, two HLEG meetings on Human Development and MDG implementation were organized on December 2006 and February 2008 in Turkey and Pakistan, respectively. The 3rd HLEG meeting on MDGs is scheduled for the 2nd half of 2009 in Iran.

Considering the progress on MDGs at regional level, the 2nd HLEG meeting recommended that health related MDGs, namely, MDG 4 (Reduce Child Mortality), MDG 5 (Improve Maternal Mortality), and MDG 6 (Combat HIV/AIDS, Malaria and other diseases) constitute priority areas in ECO's further activities. In implementing the above goals, the ECO Secretariat will benefit from the expertise of international consultants to prepare analytical regional reports on current trends and progress of ECO member states on MDGs. The Terms of Reference (TOR) for such consultancy are in place. UNICEF has agreed to provide its support, technically and financially. An amount of US$40,000 is allocated for this purpose.

ECO Secretariat approached UNDP, as a major competent UN body, active on MDGs and human development, to assist the Secretariat in regular preparations of the "ECO Human Sustainable Development Report."

Health: overview, activities and future perspectives

According to the Treaty of Izmir (Article II-a), one of ECO's core objectives is "to promote conditions for sustainable development and raise the standard of living and quality of life in member states through mobilization of economic and social potential of the region". The First (informal) Meeting of ECO Health Ministers in 1994 in Tehran outlined a broad framework for further formulation and preparation of specific proposals. Eight events, such as training courses, workshops and others, were organized in the health sector in cooperation with UNFPA, UNICEF and WHO from 1994 to 2000.

Since the establishment of a new HRSD directorate, health issues are acquiring increased importance for interaction at regional level. Such cooperation received a positive feedback of member states during the last two years. The Secretariat coordinated organization of important meetings, including on Drug (Pharmaceutical) cooperation and Blood Transfusion. It also coordinated organization of Study Tours for health authorities of member states to follow the achievements of member states in this field. The first tour was organized in Iran (9-12 December 2007) and the second is scheduled for April 2009 in Turkey.

Establishment of "ECO Drug Regulatory Authority Network" and "ECO Blood Transfusion Services Network" were proposed by relevant meetings. Subsequently, the meetings were scheduled to be held in

Pakistan and Turkey, respectively. Iran also offered to hold training courses for health authorities of member states including, among others, on Master of Public Health (MPH). Considering the increased cooperation in health, organization of a ministerial meeting was welcomed by the 19th RPC meeting. The Secretariat is in touch with member states to find a host for this meeting.

Cooperation on Natural Disaster Management

Recognizing the high level of seismic hazard and prevalence of natural disasters in the ECO region, 16th COM meeting stressed the importance of disaster management issues and activation of ECO in this field. Subsequently, the Baku Declaration, adopted at the 9th ECO Summit on May 2006, highlighted the importance of regional cooperation on these issues.

Further to the MoU signed in May 2007 between ECO and the UN International Strategy for Disaster Redaction, the MoU on the Establishment of Regional Center for Risk Management of Natural Disasters (ECO-RCRM) was signed at the 1st ECO Heads of Meteorological Organizations on 3-5 September 2007 in Mashad–Iran. This document was sealed by eight ECO Member States.

In 2008, the following meetings were held on this issue to minimize vulnerability of the ECO member states against natural disasters:

- Press Conference held on 29th January 2008, at ECO Secretariat to mark the "Global Campaign on Hospitals Safety for 2008-09"
- The ECO-ISDR Workshop on the Global Assessment Report (GAR) on Disaster Risk Reduction & Progress Review & Reporting Framework on the Implementation of the Hyogo Framework for Action (HFA) in the ECO Region was held on 1-2 July 2008.
- The Third ECO International Conference on Disaster Risk Management was held in Tehran on 7-8 October, 2008.

In the framework of cooperation between ECO and the UN Office for Cooperation of Humanitarian Assistance (UN/OCHA,) a successful workshop titled "Legal Framework of Humanitarian Assistance" for ECO Member States held in Tehran on 18-20 November. In the current year, the UN/OCHA will organize other events on the issues of Drought Management and “Climate Change and Natural Disasters.”

Overview: the Directorate for Projects, Economic Research and Statistics (PERS) was established in 1998. It functions as a focal point for inter-sectoral coordination among various departments of the ECO Secretariat in fulfilling ECO’s main objectives. The Directorate provides the ECO decision-making bodies with economic, financial information and statistical data on the developments in main activity areas of the organization. Its activities are structured along the following three main areas:

i. **Statistics**

Currently, the Directorate collects, compiles, updates and maintains statistical and economic information and data received from Member States. It is now setting up the ECO Statistical Data Base, which would consist of the macroeconomic compendium and Sectoral Statistics the main ECO activity areas such as investment, energy, transport, agriculture and tourism. The main objective of establishing the Data Base is to harmonize the methodology, measurements, classifications, metadata used by ECO National Statistical Offices (NSOs.) These issues will be high on the agenda of the 2nd Meeting of Heads of NSOs, and 2nd HLEGM scheduled for September 2009. To connect Member States to ECO's Data Base, Iran has offered its website for common use within the region to serve as ECO Statistical Network.

ii. Economic Research

To provide a strategic vision and identify vector development in ECO's main activity areas, the Directorate coordinates regional economic research. Nearly ten economic research themes have been recommended by the 19th Meeting of the Regional and Planning Council of ECO for conducting in the current year. These would effectively facilitate ECO's decision-making process on strategic issues relating to its economic development. The progress on the research studies will be discussed at the Workshop on Economic Research, scheduled to be held in Turkey during 2009. It will consider the issues most salient for ongoing regional development, potentially including the impact of the global financial crisis on Member States and perspectives of increasing intra-regional in the region.

With the aim of establishing a regional *think-tank*, capable of providing economic analyses based on solid scientific research, the Directorate is arranging to convene, during the year 2009, the 1st Meeting of Senior Officials of Leading Economic Research Center/Institutes/Departments of the ECO region. The 18th RPC-recommended meeting will also help integrate and consolidate best economic thought available in the region.

ECO Publications:

The Directorate publishes ECO's Annual Economic Reports. These reflect information and analyses on macroeconomic development of Member States. They are circulated to Member States through official channels. These can also be accessed through the website. The information contained in the above publications is derived from country reports and statistical sources, provided by Member States and, also through information-sharing between ECO and its international partner organizations. ECO Statistical Bulletins contain country-specific information of Member States and are regularly updated on the website. The first electronic issue of the ECO Economic Journal is available on the ECO website. Its Terms of Reference was approved by the Council of Permanent Representatives. The Editorial Board has been established.

Knowledge Sharing

The Directorate creates, updates, and maintains the ECO Directory of Training Institutions and Roster of ECO's Leading Experts**.** The main objective of such reference directories is to inform the region about its best available expertise and also enable sourcing ECO's current activities from the common pool of highly professional experts and leading training institutions in the region.

iii. Projects

The ECO projects are being implemented in such areas as transport, trade, investment, agriculture, industry, energy, environment, human development and tourism. Overall coordination of the projects is carried out by the Directorate. The process of establishing a Project Monitoring Unit (PMU) at Secretariat is ongoing. The suggested PMU aims strengthening (i) efficiency in process, implementation and maintenance of projects (iii) accountability, (iv) development of common policies, and (v) co-financing. The Directorate regularly reports to the ECO decision-making bodies on the status of project implementation.

III. Major Developments in ECO Countries

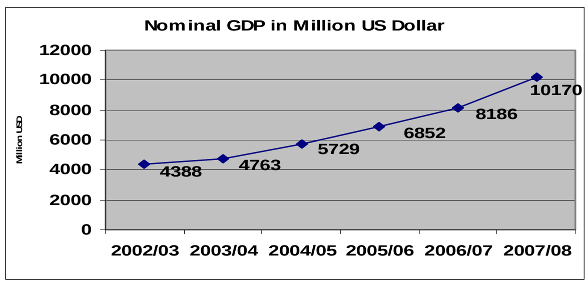
III. Major Developments in ECO Countries

Islamic Republic of Afghanistan

Real Economy

Afghanistan, a country in transition and rehabilitation from the destruction of a devastating war, continued consolidating, during 2008, its development effort. With donor support, mainly in pledges of US$15 billion for reconstruction, the country focused on completion of its major infrastructure projects. In 2008, despite security-related challenges, the real economy grew at an annual average 7.5 percent rate[7]. Nominal GDP reached US$10,170 million (chart 3.)

Chart 3

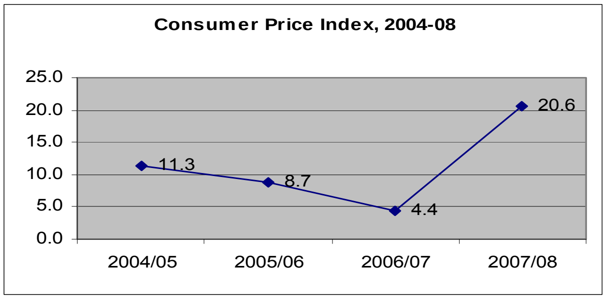


Sources: country report, IMF, WB, EBRD, UNESCAP

Prices: Over the past two years, as the rest of the world dipped into a recession, Afghanistan experienced negative spillover effects, which resulted in price increases. Due to a major draught in 2008, and an estimated 30 percent decline in grain production, the country had to make wheat purchases of up to US$162 million from international markets. Owing to high prices on food and energy, the country's core inflation, which was at a low annual 4.4 percent in 2006-07, rose to over 20 percent during 2007/2008 (chart 4).

[7] According to ADB, Afghanistan's' real GDP growth rate at end-2008 was 3,4 percent.

Chart 4



Sources: country report, IMF, WB, EBRD, UNESCAP

External Sector

Afghanistan's exports[8] reached US$545 million during 2008-09. Imports increased to US$3020 million. In 2008-09 the country's exports of US$545.0 million stood at 15.3 percent of total trade turnover. This was partly to a large increase of imports in spare parts and technical equipment for infrastructure projects.

The value of exports in 2008-09 lowered to 20.0 percent of total compared to the previous year. For the reported period, carpet exports accounted to over 15.3 percent of total trade.

Fiscal Policy

During 2007-08, the Government, in view of the global financial environment, exerted much effort to improve fiscal sustainability. It facilitated more donor financing into the core budget while focusing on financing the operating budget from domestic revenues.

However, fiscal pressures prevailed due to a need to increase salaries and support households through a grading reform and fuel subsidies. These pressures pushed the operating budget expenditures to rise.

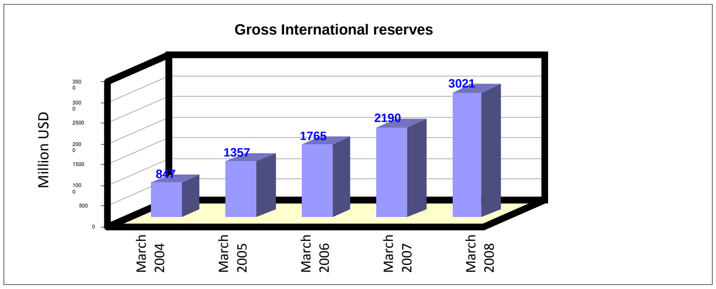
Within the period 2003-08, domestic revenues experienced 9.2 percent growth in collections. This was possible due to new policy measures by the Government.

Monetary Policy

In 2008-09, the Government undertook measures to strengthen effective monetary policy to increase the country's gross reserves to US$ 3,021 million (chart 5). Afghanistan's banking sector remained largely undisturbed owing to the revised legal commercial frame. These measures helped strengthen an already tight monetary discipline.

[8] The indicator for total exports does not include smuggled and re-exported goods. Exports have been derived using cif.

Chart5



Sources: country report, IMF, WB, EBRD, UNESCAP

Outlook

In 2007-08, the real GDP per capita reached an estimated US$415. The GDP at current prices grew to US$10,170 million in 2007-08.

The GDP growth forecast for 2009 is expected to be about 5.0 percent. Due to a surge in food and fuel price, including export restrictions on wheat by key regional trade partners in 2008, the country's CPI is estimated to be at an estimated 15.0 percent in 2009.

The targets of FDI into the country, notably, the Copper Development and Hajigak Iron Ore Projects, are currently under implementation. External investment is expected to flow. Proceeds from the projects in mineral extraction will augment the core national budget.

In 2007-08, the current account balance (including grants) registered a surplus of 0.9 percent of GDP compared to a deficit of 4.9 percent in 2006-07. Gross international reserves were at over US$3.0 billion in 2008. During 2009, these are expected to increase by one percent.

Republic of Azerbaijan

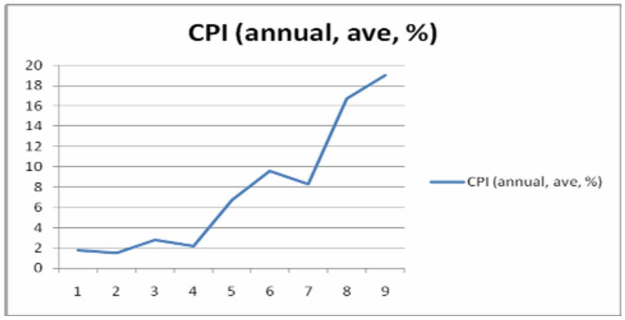
Real Economy

Since 2005, Azerbaijan observed a spectacular growth of real economy at over 20 percent. Such performance, supported by high oil prices, pushed a per capita real GDP to an estimated US$3,905 in 2007 and US$5403.9 in 2008. Poverty declined to 12.0 percent of the total 8.9 million Azerbaijan's population in 2008 from 44.7 percent in 2003. Oil revenue grew by about 60 percent of real GDP. This resulted in a boosted domestic consumption and fiscal surplus of 18.2 percent of GDP. By the end of 2008, Oil Fund assets stood at US$11219.2 million against their mark of US$2475.4 million in 2007. The country's international reserves are projected to reach US$25 billion in 2009-10.

Prices

Inflationary pressures were fed by increases in international energy and food prices and a slow pace of appreciation of the national currency unit, Manat, against the US dollar. Massive increases in oil revenue led to a heightened aggregate demand, which, in its turn, pushed the country's inflation rate up to a 20.8 percent high in 2008 (chart 6.) To minimize potentially negative impact of such imported inflation, the authorities implemented a new exchange rate arrangement, a so-called "currency basket arrangement," by pegging the Manat, to a dollar and euro. While this measure was being tested, there was a risk that the pressures to increase real wages and pensions, if continued, might turn out entrenching a wage spiral. That would keep inflation high in the near term.

Chart 6



Sources: IMF, WB, EBRD, www.azstat.org

External Sector

Massive accumulation of oil fund assets, created a favorable environment for continued economic growth. Trade was in surplus of US$23,011million in 2008. In non-oil sector, exports were strong in agro-industry, metals, construction, commerce and communications. However, these remained relatively small at about 10 percent of non-oil GDP, in terms of their ratio to trade in oil.

Exports grew by 57 percent of total and reached US$9511,6 million. Imports made up US$7,840 million, which is by over 30 percent higher than their level in 2007. These were lower in quantity though due to a rising appreciation of Azerbaijan's Manat.

Current accounts registered 18.2 percent[9] of real GDP in 2008 against 24.3 percent in 2007. In spite of a large investment repatriation from foreign oil companies, the country's capital stock sufficient to mitigate external public sector debt. Private sector debt declined to 11.7 from 14.1 percent in 2007. Publicly guaranteed external debt[10] fell by 8 percent in 2008.

Budgetary expenditure rose to 66 percent of non-oil GDP. At the same time, wages and transfers increased by 46 percent. Investment spending rose also. However, a limited supply to a rising demand was a major concern for the authorities. To mitigate a widening gap in revenue growth between oil and non-oil sector, namely, 27.7 and 9.0 percent, the authorities undertook to reduce expenditures. As a result, a rigid tax administration resulted in recall of previously tax-exempted revenues amounting to 4.5 percent of non-oil GDP. Large expenditure increases moderated, but were yet expected to remain at about 30 percent over the near future. In mid-2008, the supplementary budget was initiated to support pension increases. This was also to cushion costs of imports for large-scale investment projects.

Monetary and Fiscal Policies

Since 2004, the country's banking sector credited to the real economy at 50 percent, annually. During 2007, crediting grew at 98.1 but in 2008 it slowed down to 53.0 percent. Because of privatization, which was at

[9] The current account surplus was adjusted from the IMF-derived 39.0 to 18.2 percent, according to country statistical data.

[10] The country's publicly guaranteed external debt was at 8.1 percent of GDP in 2007 and 7.5 percent in 2008.

full pace, the private banking sector performed well. Its share of privately-owned assets reached 58 percent of the country's total.

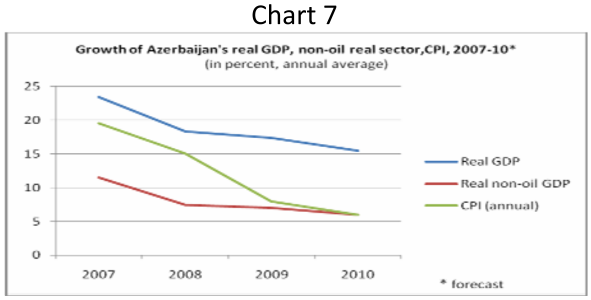
Rapid credit growth marked a new dynamics in Azerbaijan's economic development during 2004-07. The banking sector was largely financing the property sector through lending to the construction sector. As external loan financing halted due to the global credit crunch, the banking sector faced a potential default because of prevailing non-collaterized loan repayments. Moreover, foreign owned deposits declined during first half of 2008.

To soften the impact of previously excessive credit to economy, which in 2007 stood at 96.5 percent, the pace of privatization was accelerated. A 2 percent collateral on loans was initiated. The tax base was broadened. As a result, the current accounts registered 18.2 percent in 2008. Appreciation of Azerbaijan's Manat opened new opportunities for the country's trading partners through existing large interest rate differentials in trade. These also helped Azerbaijan to attract short-term money flows from regional countries.

Outlook

Azerbaijan is expected to grow at 4.3 percent during 2009. An impressive progress in living standards over the period 2008 is the country's significant achievement. The short-term prospects for the economy are very promising. The real GDP grew at 10.8 percent in 2008. Continuous capital inflows would ensure completion of large-scale investment projects. Issues of Illiquidity, in case of potential future financial crises, are being addressed through adequate equity management. Long-term bond market is unraveling in the country. Although the non-oil sector grows at 9 percent rate, its niche in the country's GDP seeks expansion. There is, however, a forecast derived from the IMF projections that rising non-oil deficit would start denting oil fund assets by 2013-14. That would only be true, if spending is not balanced with supply in production and capital inflows. From this perspective, dependence on oil revenue would continue featuring the country as one undergoing a temporary oil production boom where non-oil sector output accounts for one-third of total (chart 7).

Chart 7



Sources: IMF, WB, NBA, NSO

Islamic Republic of Iran

Real Economy

The Central Bank of Iran (CBI) quotes an increase of a real GDP to $270 billion in 2007 compared to US$235.6 billion during March-September 2006. Iran's economy grew at 6.7 percent in 2008. Agriculture, industry, construction, transport and telecommunications sectors were major contributors to growth.

Industries grew by an average 11.7 percent in 2008. However, due to declining prices for steel and construction materials, production of raw and finished steel products, cement, vehicles and petrochemical items, recorded 1.7, 13, 12.6, 6.6 and 41.6 percent growth, respectively.

According to the Agriculture Ministry, production of such crops as wheat, barley and rice rose by 9.1, 8.8 and 7.2 percent, respectively, while horticultural and livestock products increased by 6.1 and 6.2 percent.

Following a private investment boom in housing during 2004-2007, this sector grew by an estimated 68 percent in 2008 compared to the same period in 2007, according to CBI.

External Sector

Since 2000, high oil prices have resulted in large trade surpluses, despite a marked rise in import spending. Exports stood at US$38.0 billion in 2007. Export commodities were mainly petroleum 80 percent, chemical and petrochemical products, fruits, carpets. Exporting partners were Japan 14, China 12.8, Italy 6.3, South Korea 6, and Netherlands 4.6 percent, within the share accounting for ECO countries, 7.2 percent was for Turkey.

Imports stood at US$69.4 billion in 2007. Imported commodities constituted industrial raw materials and intermediate goods, capital goods, food, technical services. Importing trade partners were Germany at 12.2, China 10.5, UAE 9.3, France 5.6, Italy 5.4, South Korea 5.4, Russia 4.4 percent and 57 percent was for ECO countries. Overall trade in 2008 increased with surplus in imports.

Reserves of foreign exchange and gold stood were at an estimated US$69.2 billion in 2007. Debt-repayment eased.

Outlook

A forecast for 2009 is that real economy will grow at a rate of 5.0 percent. Such growth would be supported by increases in revenue, labor productivity and privatization. Consumer price index is likely to increase if the global financial turmoil continues. However, given that price discrepancies stabilize worldwide, it will be maintained at 2007 level, owing to a sharp drop in international oil and non-oil commodity prices.

According to CBI, the total volume of inward investment would increase by 7 percent during 2009. Liquidity growth will be at a moderate 30 percent while inflation rate would be sustained at 2007 level. Unemployment will decline by 0.7 percent due to increasing job generation.

Republic of Kazakhstan

Real Economy

Kazakhstan's economy observed rapid economic growth over 2001-2007 at an annual average 10.2[11] percent rate. Since the second quarter of 2007 and through 2008, the spillover effects of the global financial crisis impeded the country's economic growth. During 2007 and first half of 2008, owing to prudent fiscal and

[11]The figure has been adjusted from 10.0 to 10.2, upon verification by Ministry of Economy and Budget Planning of Republic of Kazakhstan (MEBP RK) of 11.08.09.

monetary policies of the local authorities, the real GDP grew at 10.3 percent. However, by mid-year it gradually slowed down to 5.7 and further 3.3[12] percent - by the end of the year.

In the meantime, output in oil sector continued to grow at 6.1, mining 11.9, natural gas 11.2 percent, respectively. The GDP per capita reached US$8.513.5[13] Effective diversification of the economy paid its dividends, and in September 2008, official foreign currency assets totaled US$27.3 billion. The budget showed a deficit of 2.1 percent of GDP.

Prices

In an environment of unstable global prices for food and energy during 2007-08, the inflationary pressures were being contained by the country. Banks maintained the fiscal policy rate within the range of 9 to 11 percent to sustain both, fiscal stability and downward inflation rate. To that effect, a year-average inflation rate was at 10.9 percent[14] at end-2008. By banning wheat and vegetable oil exports, to maintain sufficient reserves for domestic consumption, the Government ensured that low income households were supported, to offset higher cost of food.

External Sector

Kazakhstan's government budget deficit was at 2.1 percent[15] of GDP in 2008. Current account balance was in surplus of 5.1 percent[16] in 2008. External debt dropped by 28 percent compared to 2007. Trade balance surplused at 24.7[17] percent in 2008. Exports were at a 47.8 percent annual growth rate against 24.7 percent in 2007. A moderate 7.8 percent growth in annual imports, compared to their 37.7 rate in 2007, was a reflection of self-sufficiency of well-diversified domestic production. Rate of Kazakhstan's national currency unit (Kazakh Tenge, KZT) was stable at 120.6 units against US dollar during 2008 based on a trade surplus. It also favorably impacted intra-trade with ECO countries, including Kyrgyz Republic and Tajikistan, in which trade Kazakhstan has a high 8.7 percent share.

To boost depositor confidence, the country's stable exchange rate, which was conventionally pegged under the IMF's classification system, was key to improve savings. Domestic savings, which grew at an average 31 percent rate over 2005/08, reached 35.8 percent of real GDP at end-2008. Private sector saving increased from 17.7 percent in 2007 to 23.1 percent in 2008. On the supply side, the authorities introduced effective measures to increase spending in priority areas.

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[12] The figure has been adjusted from 3.3 to 3.2 percent, upon verification by MEBP RK of 11.08.09. According to IMF Public Information Note No. 09/91 July 28, 2009 the indicator is 3.2 percent.

[13] The figure has been adjusted from US$8,435.7 to US$8,513.5 upon verification by MEBP RK of 09.08.09.

[14] According to ADB, the country's year-average was 17.3 percent for 2008.

[15] The figure was adjusted to -3.2 percent by MEBP. In 2008, the consolidated budget surplus showed 1.5% of GDP from 5% GDP in 2007, according to the World Bank Development Data of April 2009.

[16] According to IMF World Economic Outlook, updated of April 2009, the current account balance was at 5.6 percent. This figure was later reviewed to 5.1 percent on 28 July 2009 (PIN No. 09/91). The country's current accounts are projected to be in deficit of 2.1 percent in 2009, according to IMF projections.

[17] According to IMF World Economic Outlook, updated on 8 July 2009. However, trade balance is expected to be lower by over 40 percent in 2009.

Revenue collection increased by 2 percent in 2008, with tax revenues augmenting at 29.0 percent compared to 26.7 percent in 2007. A balanced approach of tax authorities to bring efficiency in administering this system helped implement measures to ease the burden of financial crisis for low income households by re-structuring tax duties for high-profit corporate entities during October-November 2008.

Kazakhstan avails sufficient financial resources. Effective international networking in banking helped preserve a sustained position in external accounts despite a sharp dip in FDI. Due to intra-company ownership of major non-performing loans, loss of investor confidence, which in early 2008, resulted in large foreign exchange swaps of nearly US$14 billion foreign-owned assets, was gradually restoring toward the end of 2008. Thus, the country's national bank reserves stood at US$27.3 billion by the end of December[18] 2009. Foreign currency denominated loans fell to about 45 percent of total loans, from an estimated 75 percent in 2007.

Fiscal and Monetary Policies

One of severe spill-over effects of the global financial crisis for Kazakhstan was in its banking sector. Owing to its geographic position, which is at juncture of Western and Asian financial streams, the country had little choice but create linkages with cross-border financial markets. Being one of most populous countries of Central Asia, the economy has to use its channels, which linked it with regional economies. These were trade, workers' remittances and cross-border banking. The experience that Kazakhstan encountered during the global financial turmoil was broadly similar to those experienced by emerging market economies of the region.

Outlook

Kazakhstan's perspectives of long term economic growth are promising. Its fiscal position has re-gained its strength. The banks are well- capitalized and, non-performing loans mainly in private sector, while rising in the previous years, are currently low. Against the backdrop of the country's excellent performance over the past years, the forecast for economic development for 2009 is positive. Establishment of a distressed-asset fund and a real estate support fund would boost real economy growth. Oil sector is expected to grow at 6.1[19] percent. Construction, mining and other key real economy sectors would further accelerate. The Government introduced a US$17 billion stimulus package. Overall foreign currency denominated reserves equaled US$44.3 billion at end-2008. In the years of 2009 and 2010 the gross official reserves are expected to reach 23.9 and 33.6 billion[20], accordingly.

However, due to its global interdependence with financial markets of advanced countries, which were severely hit by the global economic crisis, Kazakhstan's real GDP is expected to grow at 0.1[21] percent during

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[18] According to ADB Development Outlook 2009, p.144.

[19] The forecast has been adjusted from 7.9 (IMF) to 6.1 percent as estimated by MEBP RK. The forecasts of ADB and WB for this indicator is 8.9, accordingly.

[20] According to IMF PIN No. 09/91 of 28 July 2009.

[21] The forecast has been adjusted from 3.0-3.5 (IMF) to 0.1 percent as by estimates by MEBP RK.

2009 and 2,3 percent in[22] 2010. These projections would be revised upward, if the base line oil prices rise above the estimated US$50[23] per barrel for the forecasted period.

Kyrgyz Republic

Real Economy

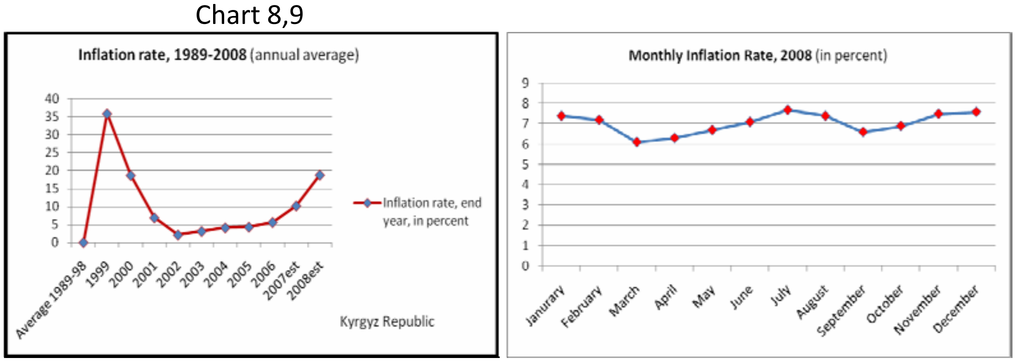
During 2008, Kyrgyzstan's real GDP grew at 7.6 percent. The real per capita GDP increased at 6.8 percent reaching US$959. The industrial output grew at 14.9 percent reaching US$3,386 million[24]. Services sector grew at 10.7, agriculture, 0.7, production of construction materials at 89.2 percent.

The country experienced severe climatic conditions during 2008, namely, long-lasting droughts, especially in Issyk-Kul and Naryn regions, severe frost in the Chyu Valley during spring, massive landslides, and shortage of water during harvesting season. As a result the growth in agriculture declined to 0.7 percent from 1.5 percent in 2007. Production of tobacco, potatoes and sugar cane dropped.

Prices

Inflation rose from below 5 percent in 2002 to 10 percent in 2006 (chart 8.) Since September 2007 till end-August 2008, it rose sharply to 20.6 percent due to rising international prices for food and energy. During 2008, it was contained at firm 20 percent rate (chart 9.)

Chart 8,9



Sources: country report, IMF, EBRD, UNESCAP

Fiscal and Monetary Policies

Broad money expanded at 12.6 percent during 2007. This was due to the growth in deposits of commercial banks at 16.7 against 27.0 percent in 2007. Credits to economy by commercial banks increased by 26.4 percent against 70.7 percent in 2007.

[22] The forecast figure of 2.3 percent has been inserted upon suggestions of MEBP RK.

[23] The OPEC forecast of US$45-50 per barrel has been adjusted to US$50 as estimated by MEBP RK.

[24] In national currency unit the figure was shown as KS85.9 billion.

In 2008, the monetary base declined to 11.3 from 38.5 percent in 2007. The inter-bank interest rate increased sharply from 8.28 in mid-2008 to 15.85 percent toward its end.

Due to increased demand for foreign currency, mainly U.S. dollar, in such Kyrgyzstan's major trading partners as Russia and Kazakhstan, the pressure on the Kyrgyz Som to depreciate was strong. As a result, the Kyrgyz Som weakened at 11.0 percent against its rate in 2007 to reach 39.4181 against the U.S. dollar by the end of 2008 compared to 35,4988 at the beginning of the year.

External Sector

According to the country's socio-economic report for 2008, the budget increased at 28.1 percent compared to the same period in 2007. Revenues were collected at 24.6 percent of real GDP. Forecast for 2009 is about US$2billion whereas expenditures will be about US$2.1 billion. Social transfers were registered at US$1075,1 million, which is 1.5 times higher than their mark in 2007. Debt service lowered to US$694.3 million. Debt repayments stood at 11.9 percent of total.

Trade turnover grew at 49.2 percent reaching US$5178.6 million in 2008, which was 49.2 percent higher than in 2007, including trade with countries of the so called "far abroad." Such trade reached US$2406.5 million showing an increase of 50.2 percent, and US$2772.2 million increasing at 48.4 percent, -— with countries of the CIS. Exports grew at 47.3 percent reaching US$1498.4 million. Increase in exports was due to favorable market for precious metals, construction materials and agricultural produce. Export volumes of gold increased by 1.2 times, ferrous metals waste 37.7 percent, electrical goods 6.5, clothing and textile 27.1, radiators 21.0, agricultural produce 14.8 percent. Decline in exports was for electric energy by 23.9 and glass by 14.3 percent. Imports grew at 50.1 percent reaching US$3680.2 million. Such increase in imports was due to price increases on fuels and food.

Intra-regional trade increased with Kazakhstan at 14.6 percent, Uzbekistan at 95.7 percent, and Turkey 45 percent. Other trading partners were Russia showing an increase of 55.1 percent, China 78.6, Switzerland 90.8, and Germany 5.6 percent.

Current accounts grew by 4.4 percent compared to 2007. FDI flows grew at 48.3 percent and stood at US$481.0 million against their mark of 324.5 million in 2007. The share of FDI in GDP reached 13.2 percent.

Investments in main assets declined in construction at 5.4, agriculture and forestry at 34, transport and communications 2.4, and distribution network for water, gas, and electric energy at 0.2 percent.

Outlook

The economic prospects of the Kyrgyz Republic for 2009 are aligned with those of regional economies. The country's performance largely depends on its economic interaction with its trading partners. In this view, macroeconomic situation of the regional setup is a major factor. In the meantime, the authorities undertook a number of effective measures to stabilize the economy. These include the development of an appropriate fiscal framework to tighten fiscal and monetary regulatory base. Thus, on 26 December 2008, the country adopted, among other measures, the Plan of Actions to mitigate the consequences of the global financial crisis to strengthen risk management and regulatory requirements. During 2009, the economy would focus on restraining high inflation. Measures to increase intra-regional trade within ECO are underway.

During 2008, the Intra-Governmental Commission on Trade-Economic Cooperation with Kazakhstan, Tajikistan, and Iran held its sessions on 15-16 April, 25-26 July, and 24 October. Discussions on potential increase of intra-trade and investments, entrepreneurial cooperation, and finance were discussed. In addition, the country signed the Plan of Actions for 2009-11 for Implementation of the Long-Term Programme on Trade-and-Economic Cooperation with Turkey. Against this backdrop, collaborative effort to develop common approaches to combat implications of the global financial crisis within ECO is in place.

Islamic Republic of Pakistan

Real Economy

During 2005-2008, Pakistan's real GDP grew at 6.8 percent with the industrial sector expanding by 22.9 percent per annum. It rose from 24.3 percent in 2004 to 29.2 percent in 2008 as a proportion of GDP.

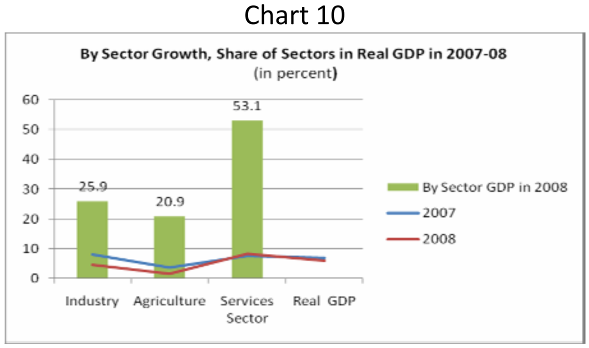
Pakistan's economic growth moderated to 4.1 percent[25] in 2008. Growth in agriculture was at 1.1, industry 1.7, and services 6.6 percent. A number of factors influenced such a setback, including energy shortages, fall in crop harvests, capacity and input constraints, rising political uncertainty and lower capital inflows. An important contributor to the slowdown in real GDP growth was weak investment demand in the country. During 2008, sectoral shares in real GDP were as follows: agriculture 20.2, industry 26.8, and services 53.0 percent.

The agricultural sector growth fell to 1.1 percent during 2008. Shortfalls in wheat and cotton output were caused by water shortages at sowing time. High prices of fertilizers and pesticides led to lower usage of these inputs, resulting in depressed yields.

The industrial sector suffered from economic, political and structural setbacks throughout 2008. Rising fuel and raw material prices and intensifying energy shortages in the country reduced industrial output. The industrial growth was 1.7 percent compared to 8.0 percent in 2007. Manufacturing sector growth lowered during 2008, however, unlike 2007, the external demand for domestic manufactured goods increased in 2008.

The services sector growth also moderated during 2000-08. It grew at 6.6 percent in 2008 compared to 7.6 percent in 2007. The services sector contributed by about three-fourth to the total value addition during 2008 (chart 10.)

Chart 10



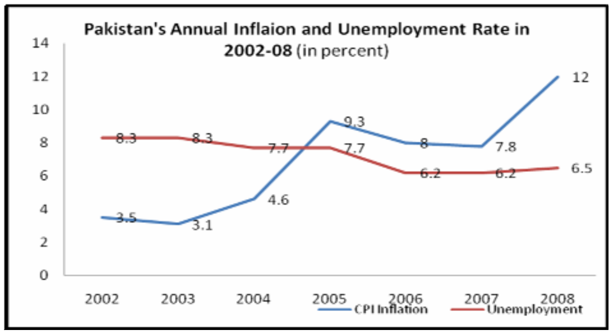
Sources: country report, IMF, UNESCAP, WB, SBP

[25] The 2007 projection for 2008 Pakistan's real economy growth was 7.2 percent; a previously stated 5.8 percent real GDP growth rate was adjusted to 4.1 percent as of the data provided on 29 May 2009.

Prices

Escalation in inflationary pressures was particularly strong towards end-2008. A year-average inflation soared to 12.0 percent during 2008 compared with 7.8 percent in 2007 (chart 11.) Its rise was due to worsening of a demand-supply balance, increases in international commodity prices, widening of a fiscal deficit from 4.3 in 2007 to 7.4 percent in 2008, and worsening of the external current account deficit from 4.8 to 8.4 percent.

Chart 11



Sources: country report, IMF, UNESCAP, WB, SBP, SSBP

Monetary Policy

During 2008, the Government borrowed from banks to support the budget. Growth in reserves reached 20.9 in 2007 and 21.6 percent in 2008. Broad money was at 15.4 in 2008 against 19.3 in 2007. Demand for domestic credit rose to 29.3 percent during 2008 from 15.8 percent in 2007. After declining by US$ 5.1 billion in the eight months from the end-October 2007 level of US$ 16.5 billion by end-June 2008, the reserves dropped to US$ 6.8 billion by end-October 2008. However, the continued rise in workers' remittances was registered at 17.0 percent during 2008. To that effect, official reserves were replenished to US$11,399 million at end-2008. There remains ample potential to raise foreign reserves in future.

Fiscal Policy

Revenues decreased due to a rise in total expenditures and large interest payments. The inflationary pressures led to continued monetization of the deficit. The Government's budgetary borrowings from the central bank during 2008 reached US$227.3 billion, as compared to only US$ 44.8 billion in the same period of 2007. Savings to GDP ratio fell to 13.9 in 2008 from 17.8 percent in 2007. Decrease in savings, while depressing economic activity, increased pressures on external accounts to finance domestic investment.

External Sector

A sharp rise in imports of 35.7 percent in 2008 compared to 8.2 percent in 2007 overshadowed growth in exports in 2008, which were 19.5 versus 4.7 percent in 2008. Oil imports in 2008 were higher by almost half of their volume in 2007. They accounted for 74.8 percent of the external current account deficit and absorbed 52 percent of the export earnings. Demand impetus and high international commodity prices, contributed to worsening of external current accounts deficit, which reached US$14.1 billion accounting for 8.4 percent of real GDP in 2008 compared to just US$ 7.0 billion, which stood for 4.8 percent in 2007.

The impact of this setback was exacerbated by a decline in the financial account surplus during the period. As the global financial crisis unfolded in 2008, a fall in capital inflows resulted in contraction of reserves, while exchange rate depreciated by 11.5 percent.

Outlook

Headline inflation is likely to accelerate above 12 percent during 2009. To sustain economic growth at an estimated range of 3.5 percent, the country is likely to focus on ushering massive FDI inflows to achieve a rapid transformation towards industrialization. At the same time, a rising debt stock, which stood at 60.1 percent of real GDP by the end of 2008, reflected not only a large current account deficit, but also a decline in non-debt external flows and the depreciation of the rupee. However, workers remittances are projected to grow by another 7.5 percent. Exports are expected to grow at 21.5 percent and imports at 35.5 percent in 2009. Broad money will contract to 14 percent against its 15.3 percent in 2008. Fiscal deficit is forecasted to stabilize at 4.7 percent from its 8.4 high in 2007. Current account deficit will also moderate to 6.2 from its 8.4 percent level in 2007. Stable level of national savings, investments, revenues, which over 2003-08 were sustained at average 20.5, 19.8, 14.3 percent are expected to revitalize the economy from a temporary downturn. For the above forecasts to materialize, a major stabilizing factor needs to be in place and, that is, ensuring security and favorable economic environment.

Republic of Tajikistan

Real Economy

Tajikistan's real GDP grew at 7.9 annual average percent during 2008. The combined output in all sectors of economy reached US$5163,8 million. The industrial output accounted for US$1,728 million, marking a 3.1 percent reduced compared to 2007. However, production in cotton sub-sectors contracted by 24.5 percent.

The total production of consumer goods stood at US$452.0 million. For food, petrochemicals and machinery equipment, the output increased at 2.8, 17.6, 16.4 percent in 2008 compared to the same period in 2007.

The agricultural sector grew at 7.9 percent against its 2007 6.5 percent rate. It produced the output worth of US$2,285 million, marking 8.4 and 6.7 percent increase of production in planting and livestock. Compared to the 2007 indicators, production of grain, vegetables and fruits, during 2008, increased at 1.2, 8.2, and 66.9 percent, respectively. However, raw cotton yield declined by 15.7 percent due to seasonal weather conditions. Livestock increased by 4.5 percent, and meet production by 9 percent compared to the same period in 2007. Milk production in household farm account for 93.2 percent of total production.

Construction provided local households with 762623 square meter living area, which by 141785 square meters was more than in 2007. Contribution of non-public sector in housing construction was significant: it built 662520 sq. m. housing space, which accounted for 86.9 percent of total housing. The total number of 19487 children was provided with school and 176 patients — with hospital space.

Chart 12

Sources: country report, IMF, SESRIC, UNECE, UNESCAP

In transport sector, the total of transported cargo weight marked a 6.1 percent (47732.3 tons) increase compared to the same period in 2007. Over 14555.4 tons of cargos were shifted by rail, showing a 0.1 percent increase compared to 2007. Air-lifted cargo totaled 2.5 thousands tons, which was by 19 percent more than in 2007. Road transportation delivered 33185.6 tons of cargo in 2008. The total turnover in the transport sector amounted to 4152.9 million ton/km, which showed a 7.5 percent increase compared to their 2007 volume.

By the end of 2008, increases at 1.3 and 7.5 percent in tariffs for rail and air-borne cargo transportation resulted in sharp price increases in cargo shift via all transport means of the country.

Prices

A year-average inflation rate was 11.8 percent in 2008, including for food and non-food items 13.0 and 5.0 percent, and for commercial services 20.6 percent, respectively. An average monthly percentage change in CPI was 0.98 pp[26], which is 1.5 pp lower compared to 1, 6 percent in 2007. In general, the prices for food items increase to 13 percents. The price increases were for rice, milk and beef by 92.0, 44.4 and 24.6 percent on average in 2008. At once of this the price for cottonseed oil redacted to 20.7 percents. The PPI for 2008 accounted for 94.4 percent.

The reasons behind a price downslide in light industry were due to 30 percent price cuts for textile produce. In machine-building, price drops were caused by a 1 percent price cuts in the cable manufacturing sector and 0.9 percentage point reduction – in transformers. The annual average unemployment rate was low at 2.2 percent with 44,000 unemployed of total 7,392 million population at the end of 2008.

External Sector

Tajikistan's trade balance showed a US$1863.4 million deficit. Imports of US$3269.8 million exceeded US$1406.4 million worth exports. Compared to 2007, imports in 2008 increased by 28.4 percent, whereas exports declined by 4.2 percent. Almost 14 percent of imports were food products and 2.5 percent was gas.

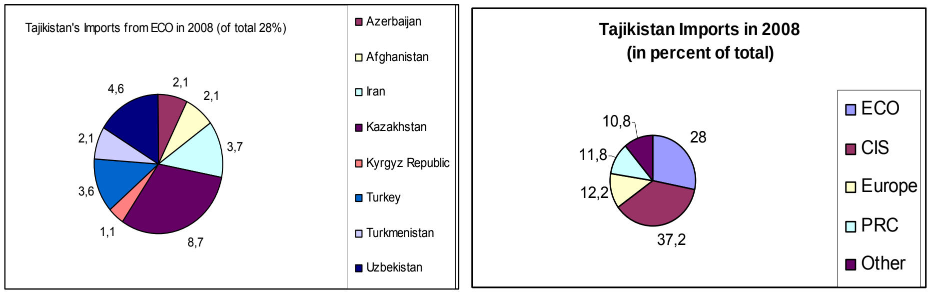
In 2008, the ECO's share of Tajikistan's total imports accounted for 28 percent having only CIS[27] ahead of it. The latter traded with Tajikistan at 37.2 percent. Analysis of a 28 percent share of imports of Tajikistan's ECO trading partners showed that Kazakhstan traded at a highest 8.7 percent, whereas Uzbekistan at 4.6, Iran 3.7, Turkey 3.6, Afghanistan, Azerbaijan and Turkmenistan at 2.1 percent each, and Kyrgyzstan 1.1 percent.

[26] The abbreviation PP stands for a percentage point

[27] The CIS' indicator as shown above is exclusive of ECO countries' indicators for imports

Pakistan’s imports to Tajikistan were minimal (chart 13.) Of 72 percent of Tajikistan’s total trade with the rest of the world, 32 percent accounted for Russia, 11.8 for the PRC, 1.5 for the US, and about 0.3 percent on average for European countries. The share of European countries stood at 12.2 and, the PRC at 11.8 percent whereas that of the rest of the world at 10.8 percent (chart 14.)

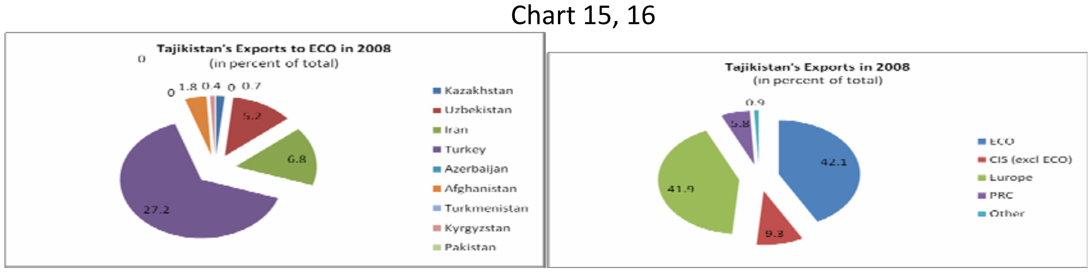
Chart 13, 14



Sources: country report, IMF, SESRIC, UNECE, UNESCAP

ECO’s share in Tajikistan’s total exports equaled 42.1 percent whereas EU’s share stood at 41.9 percent of which Switzerland only accounted to 37.7 percent, CIS (excluding ECO countries) 9.3, and PRC 5.8 percent (chart 15, 16.) Tajikistan’s exports to Turkey were at high 27.2 percent (US$ 382.4 million).

Chart 15, 16



Sources: country report, IMF, SESRIC, UNECE, UNESCAP

Tajikistan’s national currency unit (Somoni) was relatively stable during 2007/08 at TS 3.44 in 2007 and TS 3.43 in 2008 against US dollar. It followed a general trend of depreciation of currencies of its major trading partners.

Fiscal and Monetary Policies

Tajikistan enjoyed a fiscal surplus of US$ 118.9 million in 2008. During 2007/08 tax collection was stable. Revenues were at US$1093,9mn and US$ 1525.6 whereas expenditures at US$1015,2 and US$ 1406.7

Gross remittances stood at an estimated 51.3 percent of GDP at current prices at end-2008.

Investments in the industrial sector accounted for 73.1 percent of total. Social sector absorbed 26.9 percent of total. In 2008, investments worth of US$ 282898 coming from various financing sources went to formation of main assets, of which those for manufacture reached US$99335. These accounted for 35.1 percent of total. In 2008, domestic investments rose to US$190319 from US$ 222742 in 2007. The inward FDI flows equaled US$388,4 million.

Outlook

In view of Tajikistan's stable macroeconomic conditions such as sustainable growth in agriculture, machinery, services and increased capital inflows, the outlook for 2009-10 is positive. The real GDP per capita reached US$699.1, which compared to 2007 level increased by 35 percent. Over the period 2006-2008, this indicator increased at an average 30 percent, annually.

The year 2008 marked a considerable reduction in the country's external debt. The impact of global financial crisis on Tajikistan was minimal because its financial sector had limited linkages to global financial markets. It was mostly sourced by local capital.

Globally declining aluminum prices are unlikely to aggravate a slight decline in the industrial sector due to buffering price policies of aluminum buyers. Exports are expected to further decline due to a fall in demand and international prices for cotton, Tajikistan's major export item. Trade deficit is likely to widen further in view of demand for food and fuel imports. Balance of payments expects the support of continuous workers' remittances[28], which are, however, vulnerable to a forecast of shortfalls.

Current account flows may improve, due to a trade surplus on account of increasing imports and falling international prices for food and fuel. However, potential delays in FDI may offset such effect. An envisaged US$200 million of the PRC-drawn foreign investments are expected to improve current accounts and industrial infrastructure.

An overall 25 percent increase in domestic spending is expected mainly in health and education at 45 and 35 percent (largely on account of wages.)

Slight depreciation of Tajikistan's Somoni may require further exchange rate adjustments as the currencies of country's major trading partners will depreciate.

An expected 2 percent improvement of revenue collection and the tightening of monetary and fiscal policies by the Government as well as the positive economic indicators shown in this report may result in a stable though moderate real economy growth for the period 2009/10. However, if world prices for metals, including on steel, aluminum, continue to decline, a positive economic growth may slow down to about 3.0 percent in 2009.

By sector real GDP in 2007/08 (in percent)

Sectors of real economy	**2007**	**2008**
Industry	18.0	14.0
Agriculture	19.2	19.7
Construction	8.0	10.2
Services	42.1	43.3
Tax	12.5	12.6
Others	0.2	0.2

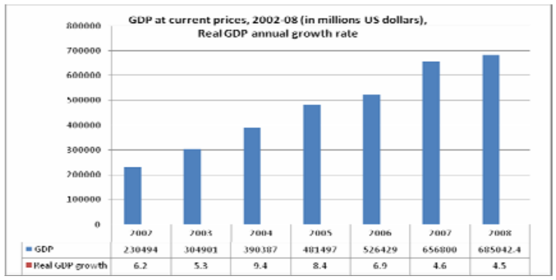
[28] Over 1 million Tajik workers are currently employed in the neighboring Russia and Kazakhstan.

Republic of Turkey

Real Economy

Turkey's real GDP growth was at 4.3 percent during 2008 (chart 17.) In terms of its size, the country's GDP is the largest in the ECO region. Over the period 2003-08, it grew at a historical average 6.9 percent whereas the country's population[29] increased at 1.4 percent and a per capita GDP (at market prices) at 12.9 percent.

Chart 17

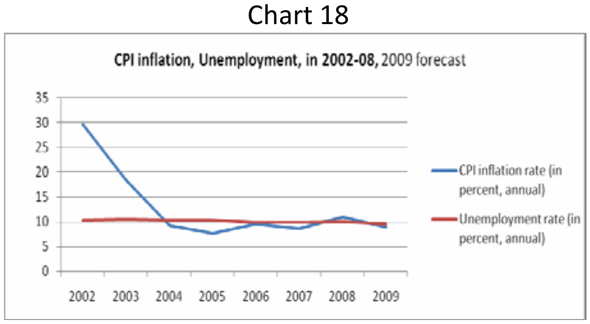


Source: Turkstat, country report, IMF, EBRD

Prices

Turkeys' consumer price inflation reached 9.0 percent high in terms of the standard targets of its EU trading partners. However, compared to the country's CPI rate in 2002-03 when it stood at 29.7 and 18.4 percent, it improved significantly due to the Government's prudent policies. The annual CPI inflation rate is expected to decline in the coming months of 2009 and would ease during the period 2010-11 to 7.1 and further 6.7 percent. A low 5.3 percent annual inflation rate is expected to be achieved by the end of 2012.

Chart 18



Sources: Turkstatdata, country report, IMF, EBRD

External Sector

The budget deficit rose from 0.6 percent in 2006; and 1.6 in 2007, to 2.7 percent of GDP in 2008. Tax administration was strong. To incentivize domestic business, a basic rate for corporate tax was lowered from 30 percent to 20 percent during 2006-08.

[29] Turkey's population total in 2008 was 71.0 million.

The current-account deficit remained large at 6.4 percent of GDP. Over the period 2003-08, it remained within a historical average 4.6 percent. By the end of 2011, it is expected to improve to 5.7 percent (table 4.)

Table 4. Turkey's Budget, Current Accounts in 2007-12

	2007	2008	2009	2010	2011	2012
Budget deficit (% of GDP)	1.6	1.8	5.0	3.7	3.5	1.7

Sources: Pre-Accession Economic Programme 2008,April 2009

Turkey's gross national savings in 2001 were at (3.1) percent, whereas in 2006 the country was saving at a high 16.0 percent, which in 2008 rose to 16.1. Although the authorities enabled a favorable environment to induce saving by increasing an average 3-month inter-bank interest rate to 17 percent during 2007-08, customers' propensity to deposit largely depended on the confidence for banks.

Gross investments[30] stood at about 22 percent of real GDP in 2007-08. FDI volumes varied accounting for US$1,752 million in 2001, and US$10,031 in 2005, and US$22,795 million in 2007. These grew at a historical average 2.1 percent over the period 2003-08. However, during 2008 this figure declined by half to balance out a total of 25 percent by the year end.

During 2007, Turkey's trade remained largely unchanged relative to 2007. Exports amounted to US$107,272 million, while imports stood at US$170,062 million, leaving a trade deficit of US$62.7 billion. Turkey's major trading partner was EU trading at 56.4 percent in exports and 40.4 percent in imports (chart). In 2008, clothing and textiles were Turkey's major exports items accounting for 21.1 percent of total whereas mineral fuels and oil were major imports at 19.9 percent (table 5.)

Turkey's Exports, 2007 (%)

Major exports 2007	% of total	Major imports 2007	% of total
Clothing, textiles	21.1	Mineral fuels and oil	19.9
Road vehicles	15.9	Chemicals	13.9
Mechanical machinery	8.2	Mechanical machinery, parts	13.3
Iron, steel	7.8	Road vehicles	8.9
Leading markets 2007	% of total	Leading suppliers 2007	% of total
Germany	11.2	Russia	13.8
UK	8.0	Germany	10.3
Italy	7.0	China	7.8
US	3.9	Italy	5.9
EU27	56.4	EU27	40.4

Sources: IMF, WB

[30] In 2001 Turkey's gross investments were at 7.1, 23.9 in 2006, and 23.4 percent of GDP in 2007.

Turkey was focused on producing high value-added products. It regarded itself as having competitive advantages in fashion, design and production quality.

The textile and clothing sector is important to Turkey's economy. It is the country's largest industry and accounts for 10 percent of GDP, 22,6 percent of manufacturing output and 21 percent of employment in the manufacturing sector.

The volume of Turkey's textile and clothing trade expanded during 2002, 2003 and 2004. In 2003, textile exports reached US$5.6bn and clothing exports US$9.5bn, a yearly increase of about 22 percent. Exports of textile and clothing products contributed 33 percent of total merchandise exports in 2003. The EU has traditionally been Turkey's main export market. Almost 63.7 percent of the country's total textile and clothing exports went to the EU.

Turkey's intra-trade with ECO members reached US$14,672 million in 2007. The highest volume of trade in exports was with Iran at US$1441,2, Kazakhstan at US$ 1079,9 and Azerbaijan at US$1047,7 billion. Turkey imported US$6615,4 million goods from Iran, US$1284,0 million from Kazakhstan and US$613,8 million from Turkmenistan (table 1.) Exports were mainly construction materials and clothing. Imports were textiles, carpets, raw leather, oil and gas. In 2008, the volume of exports to ECO declined while imports increased. In the same period, the above shown indicators remained stable with a minimum adverse impact on the overall volume and content of ECO regional trade.

Table 6. Turkey's Trade with ECO partners

	Afghanistan	**Azerbaijan**	**Iran**	**Kazakhstan**	**Kyrgyzstan**	**Pakistan**	**Tajikistan**	**Turkmenistan**	**Uzbekistan**
Exports in 2007	109.3	1047.7	1441.2	1079.9	181.3	157	118.1	340	225.6
Imports in 2007	12.5	329.6	6615.4	1284	45	531.6	143.4	396.7	613.8

Monetary and Fiscal Policies

Money supply was sustained at 40.3 percent of GDP in 2007, which was lower compared to 119.8 percent in 2005. At the same time, fiscal stability needed further improvement as supply of money was excessive, given that its velocity has slowed down. In the ECO region, the average money supply was at 23.5 percent of the combined regional GDP, the highest indicator owned by the Kyrgyz Republic at 28.7 percent in 2008. Turkey's national currency unit, Turkish Lira, remained stable at an average 1.2 against the US dollar over the period 2003-08.

Outlook

Turkey's real economy is expected to grow at 4.3 percent in 2009, rising to an estimated 5 percent a year in 2010-12, as domestic demand growth advances. The budget deficit is projected to be within the range of an estimated 1.5-2.0 percent during 2010-12. The current-account deficit will start improving to 6.0 percent of GDP in 2009, and would gradually decline by an estimated 1 percent in the following years. Capital inflows would be sufficient to finance the current-account deficit and enable the country to meet its external debt liabilities in 2009-10. Consumer price inflation is expected to decline in the coming months from 11 percent in

December 2008 to an estimated 8.9 percent in 2009. Over the period 2008-12, the Turkish Lira is expected to fluctuate within an estimated 1.18 percent.

Republic of Turkmenistan

Real Economy

Turkmenistan is the world's single country, which provides its population with free natural gas, electricity, fuels and salt. During 2008, the real GDP grew at 10.5 percent. Higher growth rates were recorded in the industrial sector, agriculture, and construction. Generation of electricity increased by 5.7 percent. Accordingly, production of natural gas, oil and cement increased by 5.5, and 4.1 and 9 percent in 2008 compared to 2007. On the supply side, construction showed substantial growth. Hydrocarbon products accounted for about 90 percent of total exports.

Implementation of such large-scale infrastructure projects as construction of North-South trans-national rail road, Turkmenistan-China gas pipe line and establishment of Avaza National Tourist Zone are currently under way. Parallel in time, construction of new manufacturing plants, inter-state highways and rural connectivity roads, and social infrastructure centers is ongoing at an increased pace.

Prices

Inflation has been under the country's close monitoring since the start of a rise in international prices for food and energy. Over the period 2002-2007, annual inflation rate was maintained at 7.7 percent on average. In 2008, a year-average inflation rate was at 7.9 percent compared to 6.3 percent in 2007. Among factors that contributed to such increase is unification, on 1 May 2008, of official and unofficial exchange rates of TMM6,250 and TMM20,000 per US dollar, at 14,250. Also, liberalization of gasoline and diesel prices and higher prices for imported food products added to rising inflation.

Fiscal and Monetary Policies

Investment in Turkmenistan's economy was on the rise. Overall investment volume increased at 19.0 percent of GDP compared to 13.0 percent in 2007, reaching an estimated US$1.4 billion. These mainly went to social-economic development of the country. Foreign owned capital investments in the country came from over 120 foreign firms representing the world's 25 countries. FDI surged by 40 percent, to US$1,199 million.

The impact of the global financial crisis on Turkmenistan's economy was minimal. The budget surplus increased to 4.3 percent of real GDP in 2008 from 3.9 percent in 2007. A single currency system governed by Turkmenistan's Manat ensured stability of the financial sector. This measure enabled active involvement of all market players with the private sector being especially encouraged.

External Sector

A stable financial frame induced the country's upward growth in trade. Current account surplus more than doubled rising by 43.7 percent in 2008, to reach 33.4 percent of GDP, which accounted to US$5.8 billion. Overall trade turnover reached US$17.7 billion, reflecting a 32 percent increase compared to 2007. Turkmenistan traded with a surplus in 2007 and 2008 at 6.2 billion and 4.5 billion, respectively. Exports grew at 67.7 percent of total, reaching US$11.9 billion. Of total exports, natural gas accounted for 52, petroleum products 24, crude oil 14 percent. Imports grew at 50.8 percent to reach US$5.7 billion. About 75 percent of total imports were construction capital goods.

Outlook

As a result of ongoing reform process, which is primarily in social development, Turkmenistan aims a 9.0 percent real economy growth in 2009 and 2010. An estimated 40 percent increase in fiscal expenditure is foreseen for 2009. Nominal GDP is expected to reach US$30.9 billion. Per capita GDP at purchasing parity price is foreseen to reach US$14,600. Current accounts are expected to be at 35 percent surplus of GDP in 2009-10. Spending on economic and infrastructure development will increase by 43 percent, on education, health care, and social welfare by 13 percent.

During 2009, production of natural gas would reach an estimated 75 billion cubic meters, oil 10.9 million tons, electricity 15.8 billion kw/h. To support large-scale infrastructure projects, including on construction for social sector, agriculture and roads, the total volume of investments is envisaged to reach US$1,61billion. Transportation, communications, agriculture and trade are likely to remain the country's prime focus in economic development in 2009. In October 2008, the Government issued the decree on establishment of a stabilization fund to mitigate the impact of the global slowdown. Private sector development is under serious consideration. The share of private sector in real economy will increase to 70 percent from its 40 percent mark in 2007. Investment in non-hydrocarbon activity and a number of structural reforms are underway. Given an estimated range of 7-8 percent average annual inflation rate in 2009-10, Turkmenistan will effectively diversify its economy to develop chemical, engineering, food processing industries, and production of construction materials.

Republic of Uzbekistan

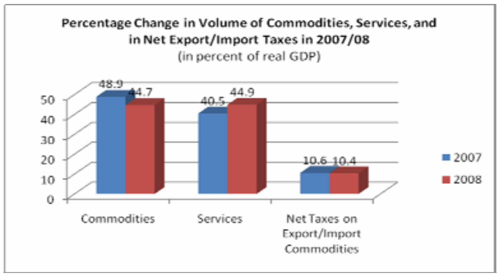
Real Economy

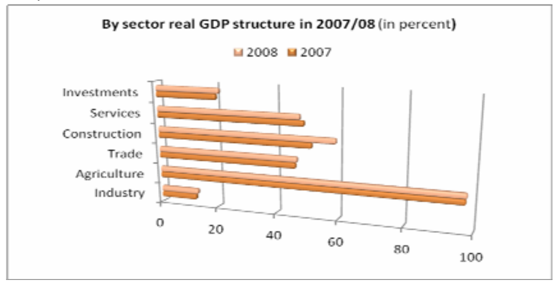
During 2004-08, Uzbekistan's real economy grew at over 7 percent, annually. Since the start of the year 2008, real GDP grew at 9.5 percent[31] to adjust to 9.1 percent by the end of the 9-month period. Uzbekistan's industrial output growth increased at an average 12.2 percent rate of total, including in production of consumer goods at 18.4, construction 8.4, agriculture 4.1, retail trade 15.0, and domestic commercial services 19.3 percent. Over the 9-month period 2008, agricultural output increased at 4.1 percent compared to the same period in 2007, including potatoes 10.8, vegetables 11.1, fruits 11.4, meat 10.6, milk 10.6, and eggs 10.8 percent of total.

The economy remained risk averse from turbulences in global financial markets, owing to the country's selected integration with western markets. Impressive growth in services sector was recorded at 44.9 percent of total. Growth in agriculture and industrial sectors remained strong (charts 18,19.)

[31] The official data cited in the end-of-the-year Statement of the Head of State before the Cabinet for the annual growth rate for 2008 is 10.5 percent.

Chart 18, 19





Sources: IMF, Statistical Survey 2008 of Uzbekistan, UNESCAP, SESRIC, UNECE

Prices

Inflation in Uzbekistan was relatively stable at annual average 6.8 percent during 2006-08. High export commodity prices generally contributed to macroeconomic stability. Employment rate increased by 1.3 percent compared to the same period in 2007. About 488,200 of the country's active workforce posted job requests in 2008, which by 88,100 exceeded the number of job seekers registered in 2007.

External Sector

Growth in trade for most Uzbekistan's trading partners was strong, despite downside risks linked to a global trade slowdown. Commodity prices within the country's trade environment remained buoyant. Current account balance recorded a surplus of 19.2 percent in 2007 and further improved to 16.8 percent in 2008. Exports grew to 41.3 of real GDP in 2008 against 30.3 percent in 2007. Imports were 8 percent lower than in 2007. The balance of payments was in surplus of US$4.5 billion, although government revenues contracted by 1 percentage. This was despite 10 percent decline in international commodity prices.

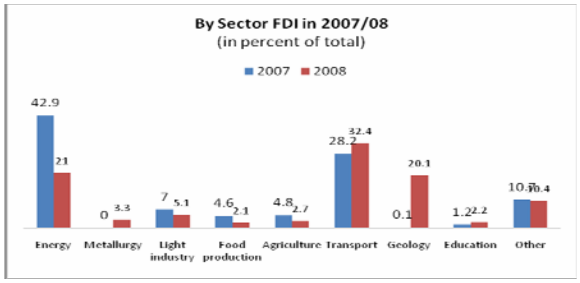
Gross official reserves increased to US$10,145 million in 2008 against US$7,413 million in 2007. Overall external investment increased at 22.4 percent, owing to Government's sound investment policy, which enabled a continuous reform process in real economy sector. The FDI and loans stood at 74.4 percent of total investment. Overall FDI volume increased from US$739 million in 2007 to US$918 million in 2008[32]. Over the years of the reform process, total investment into Uzbekistan's economy exceeded US$100 billion, of which US$25 billion[33] account for FDI.

These investment flows went to: construction 31.6, modernisation and reconstruction 39.8, and other sectors 28.6 percent of total. Investments to the manufacturing sector accounted to 71.1 percent, while non-manufacturing sector investments stood at 28.9 percent of total in 2008 (chart 20.)

[32] According to the end-of-the-year statement of the HoS the total external investment stood at US$1.7 bn in 2008 of which FDI accounted for 74%, i.e. US$1.2bn.

[33] During 2007, the total amount of FDI hit over US$1 billion mark.

Chart 20



Sources: IMF, Statistical Survey 2008 of Uzbekistan, UNESCAP, SESRIC, UNECE

Fiscal and Monetary Policies

Measures undertaken by the Government to continue bank capitalization over the period 2006/08 strengthened the country's economic position significantly. National budget surplus was recorded at 1.9 percent and a real GDP per capita income grew at 22.4 percent, on average. Expenditures rose by 28 percent compared to the same period in 2007.

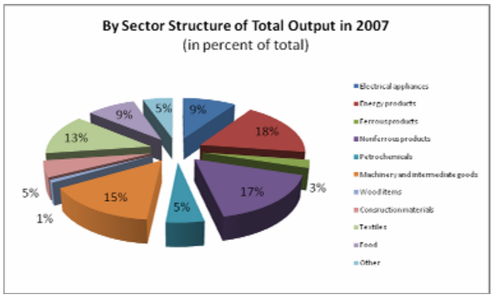
Tax enforcement was improved. Price controls were phased out and replaced by transfer programs to benefit low income population. Tax revenue increased at an annual 38.8 percent of real GDP in 2008. The amount collected from the profit tax increased at 41.7 percent of total due to support provided to SME development by reducing administrative constraints. Privatization proceeds, which showed a 57.1 percent increase in 2007, declined by 5 percent in 2008.

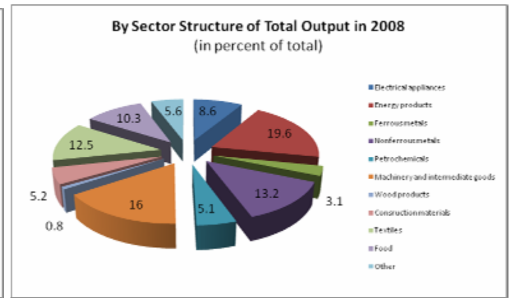
The share of outstanding debt in GDP reduced from 17.6 in 2007 to 15.4 percent in 2008. Reserve money increased from US$336.9 million in 2007 to US$436.0 million in 2008. The money multiplier grew by 3 percentage points only. Broad money declined from 46.1 percent in 2007 to 32.1 percent in 2008. Gradual appreciation of the exchange rate is expected in the coming years due to strengthening of the country's economic fundamentals. This will help take pressure off the monetary and fiscal policies.

Outlook

Uzbekistan's economy performed well in recent years, gaining from a favorable external environment and improved infrastructure. Output growth in various sectors of the economy was stable with a slight deceleration in production of construction materials, electric appliances and non-ferrous products in 2008 compared to the same period in 2007. Overall forecast for real economy growth during 2009-10 is tuned for a firm sustainable growth at an estimated annual average 9.0 percent, which is highest in the region after that of Azerbaijan. The below charts reflect a stable continual development, generating increased output in major sectors of economy (charts 21,22.) In the above view, the macroeconomic outlook for Uzbekistan for 2009 and 2010 is favorable.

Chart 21,22





Sources: IMF, Statistical Survey 200 of Uzbekistan, UNESCAP, SESRIC, UNECE

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