ECONOMIC COOPERATION ORGANIZATION

ECO Annual Economic Report

2010

Foreword

The ECO Annual Economic Report 2010 is the 11th edition of the annual economic report on the ECO region. The report offers brief assessment of major macroeconomic trends for period 2010 in ten member economies of the ECO region.

During the reported period, economic performance in ECO was for sustainable development. The results of decisive measures undertaken by the ECO over the past few years with the aim to facilitate timely recovery in financial systems of some regional countries that were affected by global imbalances, have delivered encouraging outcomes at national level. These eventually were reflected in output increase in regional manufacturing sector. To build on the momentum, ECO economies have succeeded in deepening innovative modernization of their manufacturing base. The aim was for higher technology manufacturing and industrial effectiveness. Following these trends throughout 2010, the region witnessed that some of its members were among world's fastest growing economies; others have taken lead in manufacturing of commodities most needed by inter-regional as well as intra-regional consumers.

The developments came as a result of well thought policies of governments in the member states where real per capita income have improved significantly. Owing to this fact, some regional economies succeeded in stepping up the level of world's upper tier middle income countries in the reported period.

The increase in trade exchange among member economies, which was largely due to efforts exerted by ECO Trade and Development Bank, has given a fresh impetus to strengthening of economic partnership in the region. In this, the member countries joined hands in assisting low income economies, including those in transit, in their path towards attaining much higher development goals.

Growth projections for near future development of the region will depend on world's macroeconomic stability and its interaction between regions. Stronger inter-regional economic partnerships, building on delivery on the needs of their economic communities, will be instrumental in greater performance of the ECO region.

Sincere thanks are being conveyed herewith to ECO's international partners, including FAO, UNIDO, SESRIC, ESCAP and IDB IRTI for their data support. The input of National Statistical Offices and Economic Research Centers in ECO economies in preparing the present edition has been invaluable.

Secretary General

Mohammed Yahya Maroofi

Conventions, data and assumptions

The present annual economic report presents a succinct snap shot picture of major economic trends in ten ECO countries for the reported period. Deviation from traditionally detailed coverage of long listed economic indicators was attempted herewith. The issues which pose significance for regional development have been in focus. The structure of the report emphasizes economic parameters most relevant for priority activity areas of the Organization, trade and transport being among them.

The main source of economic and statistical data used in the report was that of official statistics of ECO member states. For those indicators where meta data has been unavailable from primary sources, secondary data was derived from credible sources, including of IMF, WB, WTO, UNCTAD, UNSD, UNESCAP, SESRIC, UNECE, FAO and UNDP. For that matter, cross references to data of ECO international partners has been made. Note should be made regarding some data shown in previous reports which covered periods at pre-crises and peak of global economic downturn. Owing to the fact that some countries made post crises adjustments in their output data for previous time periods, wider statistical discrepancy may exist. Also, comparative analyses were made based on the available data, therefore the complete set of comparative indicators have been reflected for those countries that have provided full data.

The Economic Cooperation Organization comprises the following member states: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan. The statistical appendix tables are available on ECO web. These have been provided by the member states. The Secretariat appreciates the assistance of the Member States in this regard.

The ECO Annual Economic Report 2010 will be provided to member states. Inquiries about the content of the publication may be sent by email to the following electronic address: registry@ecosecretariat.org Ms. Bayan Adilbekova. Telephone inquiries may be directed to the following telephone number: + 982122831733/34 ext. 219.

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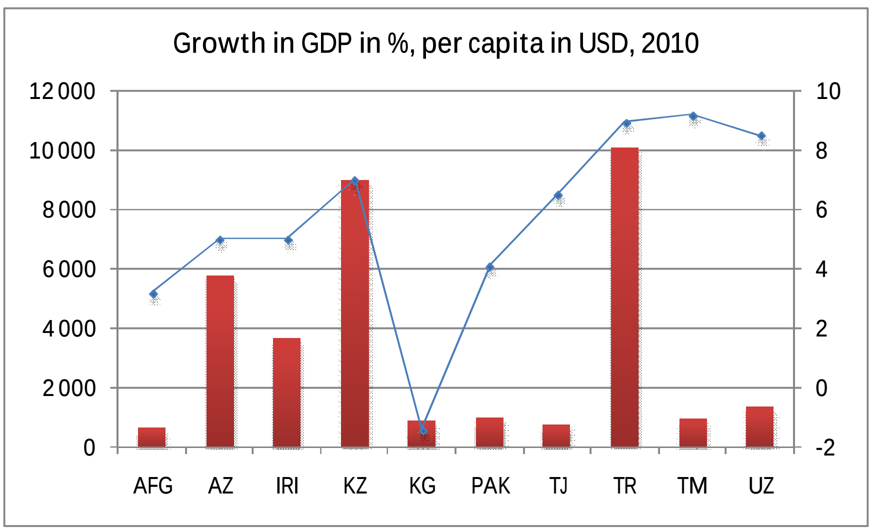
I. Regional Development in the ECO

Overview: Macroeconomic performance in the ECO region in 2010

During year 2010, development in the ECO region aimed sustainable economic growth. The combined regional GDP grew at estimated 5.6 percent rate, which compared to its growth dynamics in the previous year, was breakthrough bearing in mind that post crises effects still persisted at global level. Economic performance of individual economies of the region varied. For such ECO economies as Turkmenistan and Uzbekistan post effects of the global economic crises have been minimal, if not felt at all. Growth in these countries has not slowed down even in 2009. They grew at 9.2 and 8.5 percent rate each during year 2010 (pl. see chart below.) Middle income economies succeeded in region above 7 percent sustainable growth rate, Turkey, Kazakhstan and Azerbaijan being among these. The post crises recovery coincided in time with innovative modernization in these economies of their manufacturing base.

The regional community has significantly benefited from above developments. The real per capita income in the region improved by 6.0 percent compared to 2009 reaching US$ 3,767, on average. Turkey and Kazakhstan have made remarkable progress in this area, attainting US$ 10,079 and US$ 9,004 real per capita income for the common benefit of their people.

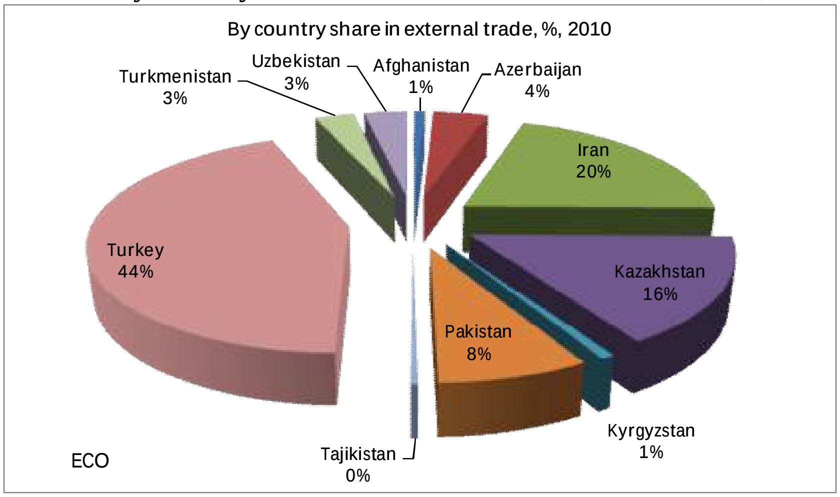
Chart 1. Dynamics in regional growth, 2010



Sources: ECO NSOs

The overall regional external trade increased by 19 percent compared to its volumes in 2009. The combined trade turnover reached US$ 684 billion in trade of goods and services. The share of individual countries in it has been diverse with Turkey, Iran and Kazakhstan at upper level, and lower income countries at lower level (pl. see chart below).

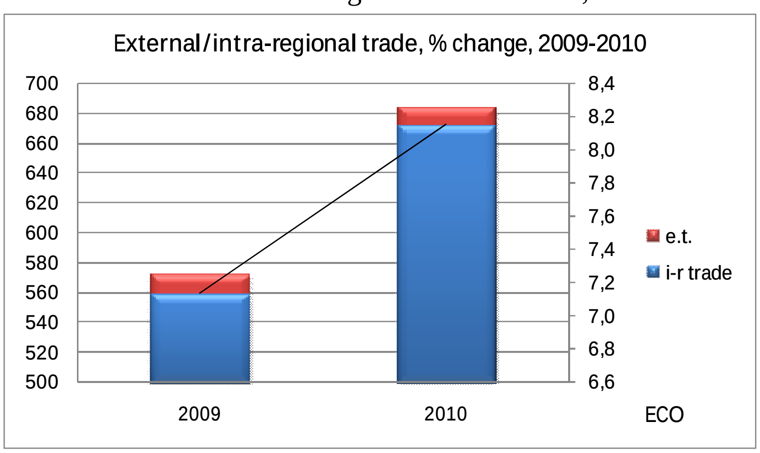
Chart 2. By country share in ECO external trade, % of total, 2010



Sources: ECO NSOs

The overall intra-regional trade in the ECO region in 2010 reached US$ 44.5 billion which compared to the amount traded intra-regionally at US$ 41.1 billion in 2009 indicated 8 percent increase in 2010. The rising demand for trade exchange with ECO partners came from Afghanistan and Tajikistan at 56.2 and 49.8 percent of total trade in each (pl. see chart below.)

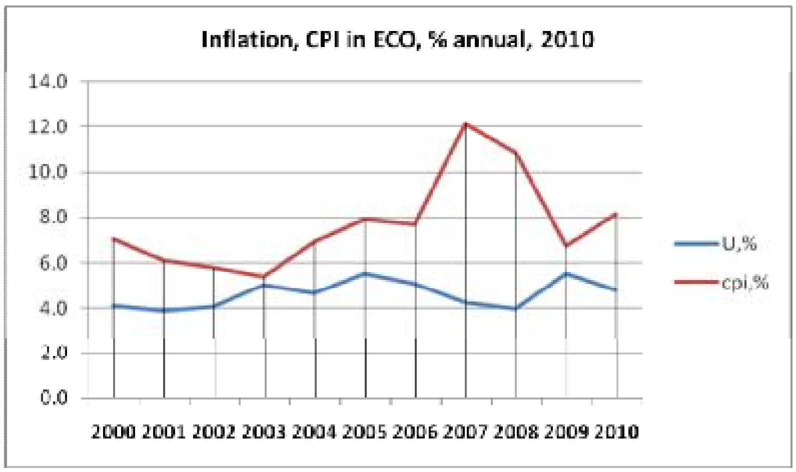
Chart 2.1 External/intra-regional trade in ECO, 2009-2010



Sources: ECO NSOs

As the rate of production of goods and services in regional economies increased, this entailed higher consumption during 2010. Subsequently, money supply increased by 22.5 percent, on average for the region. Given upward move in supply of industrial output, the growth- driven increase in aggregate demand for consumption pushed annual inflation rate to hit 8.2 percent by end 2010. Macroeconomic factors triggering high inflation during 2010 were, among others: globally high prices for food and fuel (for details pl. see part II further in the report.) At the same time, post crises adjustment of prices to consequences of the rigid monetary tightening which took place throughout the previous year 2009 − significantly added to the rise in the end of the year CPI (pl. see chart below.) Given such background, unemployment fell to 4.6 percent. Due to the practices derived from the Japanese pattern of lifelong employment in some ECO countries, including Uzbekistan and Turkmenistan, the annual unemployment rate remained within the range of 1 to 2 percent low. Other factors such as economic stability in these countries have mainly contributed to higher job generation. In Turkey, unemployment persisted at 11.8 percent due to structural shift in labor force on the back of ongoing market reforms. In low income countries, including Tajikistan and Kyrgyzstan, high workers remittances helped offset domestic labor imbalances.

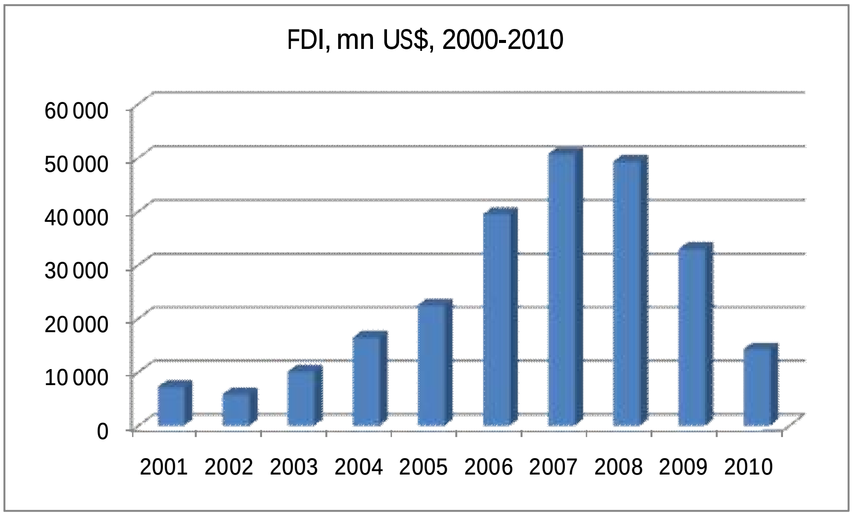
Chart 5. Dynamics in CPI, %, 2010



Source: ECO NSOs

One of the challenges posted for the regional economic development during 2010, was contraction in FDI. The aggregate FDI volumes had been decreasing since 2008. One of the contributing factors to such to lowering the level of FDI in the region was largely due to global macroeconomic environment, which persisted throughout 2009. At the same time, high banking interest rates in regional economies, which stood at 11.2 percent, on average, kept investors averse from complex long term capital investment decisions. Over the past decade, the interest rates were high at 16.0 percent, on average. Added to this, sharp movements in inflation rates in regional economies over the past few years have added to the slowing down of capital inflows for potentially long term infrastructure investments in the region. As a result, regional FDI has contacted by 56.1 percent compared to 2009 and stood at US$ 14. 3 billion by the year end in 2010 (pl. see chart below.)

Chart 6. Dynamics in regional FDI, 2000-2010



Sources: ECO NSOs

Outlook: during 2010, the share of the manufacturing sector in regional economy stood at 27.5 percent of the combined GDP. In the meantime, services reached the 53.6 percent mark in regional GDP, thereby reflecting a shift to high tech manufacturing processes which entailed higher demand for services. The latter showed considerable efficiency in capacity to meet the region's growing demand for quality based goods and services.

In the light of decisive focus on renovation and high tech industrial modernization in the economies, including Kazakhstan, Turkmenistan, Azerbaijan and Turkey, the medium term economic outlook for the region is set forth the accelerated growth. The forecast for growth in 2012-2015 is at an average estimated 7.5 percent growth. With the combined GDP of the region which reached the estimated US$ 1,580 billion in 2010, the region's social community is prepared to benefit from integration of regional and inter-regional economic activities.

For this, initiation of large scale mega projects in the region is a step forward. The region avails of necessary business pre-requisites to further increase **intra-regional trade** to an estimated 10 percent throughout 2012-2015. The regional bank of the ECO – ECOTDB - has been sufficiently capitalized in 2010, to provide loans for businesses operating in trade in the region. These trading companies in diverse sectors of regional economy will help boost intra-regional trade, which over the reported period has increased considerably and is expected to increase (as highlighted earlier in the report) even further to 10 percent by year 2015.

Effective servicing of the increasing trade exchange will be provided by expected growth in **transportation**. 51,182 kilometers[1] of rail capable of carrying 290,190 million ton/kilometers of cargoes, and added to this, 792, 3 kilometers of on- land asphalted roads transcend the region in all directions. Of this length, 11,400 kilometers which run across the ECO region have

[1] The indicator refers to period 2006.

successfully been tested during 2010 with the aim to re-ignite trade actively along the ancient Silk Road.

Intra-regional transport connections by rail between the ECO countries have marked remarkable progress in 2010. The region witnessed launch of regular train on Islamabad –Tehran - Istanbul route. The first run of container train on Istanbul-Almaty and Bandar Abbas -Almaty routes have been tested in October 2010. Works on a new railway route Turkmenistan-Kazakhstan-Iran, along the North-South corridor, have been prepared to start provision of transportation services to transit transportation. In the near future, the route is expected to introduce multiple mode transit terminals for bulk transportation of commodities of which direct benefits will go to the regional community. Growth in transportation sector of the ECO region is expected to trigger further increase in the share of the services which showed 1.6 percent increase in the combined regional GDP in 2010 compared to its share in 2009.

Inter-regional connectivity routes between partnering regions, including the EU, ECO, Middle East, South and East Asia are of the increasing economic value due to future tangible benefits for wide regional as well as inter-regional communities. For this matter, the ECO has started exploring economically viable ways of linking China to Europe through connectivity rail roads running through the ECO region. In December 2010, works along the transportation line for gas were launched by ECO countries (Afghanistan, Turkmenistan, and Iran) and of South Asia.

In energy sector, the regionally available potential was revealed through impressive production of 579,742 thousands tons of oil equivalent during year 2004 which, after having met the domestic demand, had 272,274 thousand toe in excess. Back in 2006, the region availed 2872,50 thousand barrels of petroleum produced daily having met the domestic consumption needs. In this regard, there is the potential for matching intra-regional needs through trading arrangements on energy. In the years ahead, the region is heading toward regaining the 2004 production potential and moving forward, to multiply trade volumes in this area.

Tourism industry will serve as a catalyst in strengthening regional partnership in civil aviation. This is potentially feasible through provision of services which are driven by demand in tourism sector. Civil aviation partnership is capable of further increasing the share of services in the regional GDP. In the light of revival of regular direct flights between Kazakhstan and Iran and Turkmenistan, which were marked during year 2010, further integration in the services sector of the region through tourism will effectively serve the primary needs of regional customers. Such set up would be instrumental in easing cross sector business operations. Turkey as a lead country in tourism industry plans to increase tourist arrivals up to 50 million in the years ahead. Essential share in such forecast may essentially be after ECO countries with population of 418 million. To start with, the ECO has established Tourism Promotion Fund to increase performance in the regional tourism industry.

In agriculture, which accounts to 18.9 percent of regional GDP, sensible progress was seen in seed development. To this effect, the seed development component of the ECO regional food security programme has been completed by 2010. The ECO has made arrangements to establish the Regional Coordination Unit in Turkey, to look over seed improvements in the region. The value of works on seed development are have been estimated at US$ 5.9 million.

In industries, regional development of SMEs would have given a fresh impetus in near future. Middle income countries of the ECO region are expanding their manufacturing base. As with growth in this sector, new SMEs are being encouraged to provide services for the increasing regional manufacturing base. Kazakhstan, Turkmenistan and Uzbekistan are heading toward expanding their private sector SME development up to 70, 72 and 40 percent of their GDP.

As highlighted above, the ECO region avails of an untapped potential suitable for much higher pace of economic growth in near future. Much progress in utilization of such potential has been achieved in 2010. More is yet to be attained in the medium and long term period. In this regard, development of regional mega projects will be crucial for the region. This is realizable through closer economic integration and stronger business partnership. Eventually, such set up has all potential of leading the region to greater cost efficiency in operations and generate increasing employment for people regionally as well as inter-regionally.

If compared with some of world's regional organizations, performance of the ECO during 2010 was balanced and sustainable at inter-regional level (pl. see table below). With membership of ten economies, the ECO has accounted to over 2 percent of world's trade volume in 2010. Such ECO economies as Azerbaijan and Turkmenistan have been rated as world's fastest growing economies. Turkey took a lead among OECD states in manufacturing of selected goods and commodity items. Kazakhstan has stepped up world's upper tier middle income countries' level.

Table 1. Some selected indicators on world's regional organizations in 2010

Regional Organizations	Real GDP (trillion)	Per capita, US$	Population (million)	Membership
ASEAN	1,4	2,532	591	10
SAARC	2,1	2,779	1,6 trn	8
MERCOSUR	2,4	10,530	378	4 (10)
EU	16,3	32,537	502	15 (27)
ECO	1,5	3,659	418	10
CARICOM	64,7 bn	5,725	15	15

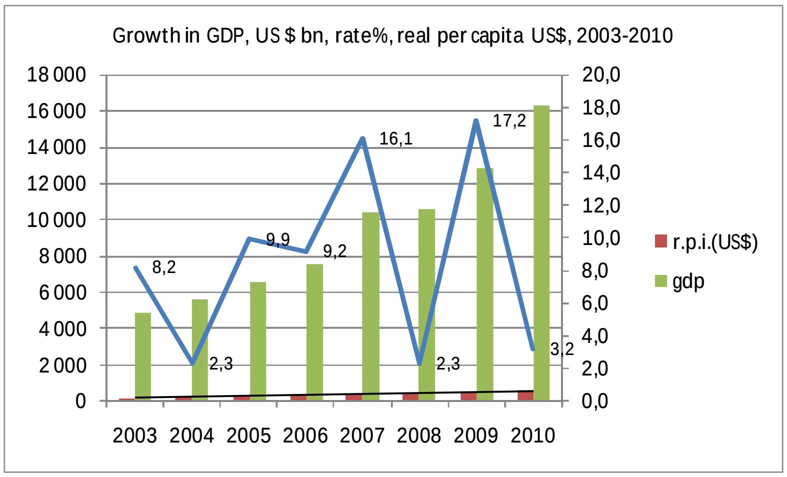
Source: World Development Indicators

II. Economic performance in ECO countries in 2010

Islamic Republic of Afghanistan

Over the period 2003-2010, the economy grew at 8.6 percent growth rate, on average. In 2010, however, growth fell to 3.2 percent from 17.2 percent achieved in 2009. Real per capita income was registered at US$ 629. The size of real GDP reached US$ 16.3 billion (pl. see chart below.)

Chart 8: Growth in GDP,%,US$ bn, per capita,US$,2003-2020



Source: Central Statistical Organization of Afghanistan

Population growth per annum in Afghanistan is second highest in the ECO region growing at 1.9 percent rate after Pakistan. Prevalence of rural population which constitutes 78.1 percent over urban in the nation of 25.9 million population, in total, highlighted the key role of agriculture in the economy's development. Compared to other ECO countries[2] with well developed industrial and services sector, Afghanistan is yet a rural economy[3].

Challenged by complexities of handling the land during the post war period which still posed security concerns, Afghanistan's farmers were exposed to severe climatic conditions which disfavored full harvesting in summer 2010. In addition, inflation kept high reaching 17.3 percent by the end of the year in spite that in the previous annual period, the rate was maintained at deflationary 4.5 percent.

[2] Turkey has 76.0 percent urban population, Iran 68.9, Kazakhstan 54.4, and Azerbaijan 53.0 percent of total.
[3] Afghanistan's agriculture is highest at 27.8 as the share of GDP in the ECO region whilst that of Kazakhstan is at 4.4 percent, Azerbaijan 5.4 and Turkey 8.4 percent.

Hence, on the back of 27.8 percent contraction in money supply during 2010, and over-the-decade long maintenance of national currency unit at stable 50.8 exchange rate, on average, against the US dollar, the Afghani depreciated slightly in 2010, by 7.0 percent as compared to 2009. Thereby, farmers were able to trade their agricultural output at neighboring markets with much heavier losses compared to the previous year gains.

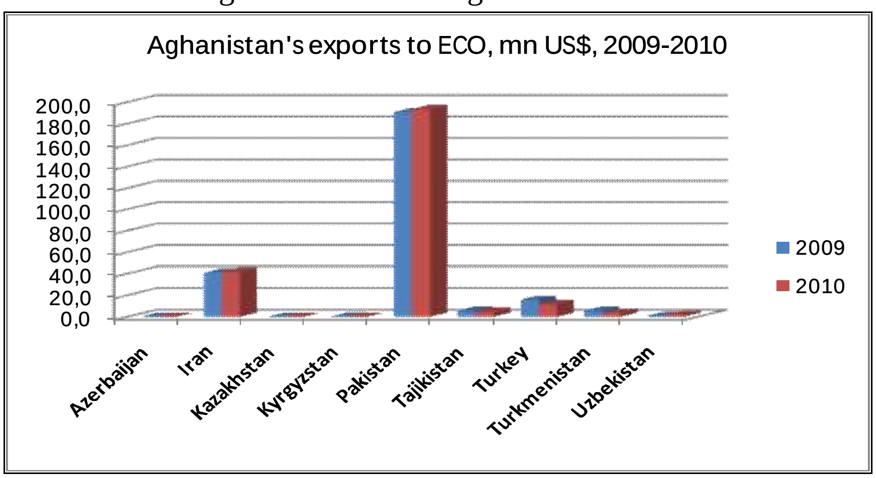
Given low performance in agricultural sector, the share of manufacturing sector in GDP fell from 21.2 in 2009 to 20.6 percent in 2010. Infrastructure posed a major challenge for Afghan businesses. In the meantime, the services went up to 48.0 percent as share of GDP thereby indicating the 8.4 percent increase compared to the previous year.

Public sector revenues were increase significantly by 35.6 percent compared to their level in 2009 and reached US$1,761 million in 2010. Compared to revenue collection in countries of the region, the figure for Afghanistan was almost similar to that of Tajikistan and Kyrgyz Republic although population of these economies is much less at 5.4 and 7.5 million, accordingly.

In view of the above, the tax share increased by 2.7 percent in 2010 compared to the previous period and reached 83.2 percent of GDP, the highest in the region preceded by Pakistan only. Expenditures increased by 15.4 percent indicating essential rise in domestic consumption given stable national currency. Expenditures neared 30.1 percent of GDP, which was higher than regional average 28.3 percent.

The current account balance resulted in US$ 736 million deficit by year end mainly due to US$ 4,766 million trade deficit. Imports from ECO countries accounted to 56.2 percent of the country's total imports. Exports to ECO countries reached US$ 258 million decreasing only by a slight 9 percentage points compared to export volumes to the region in 2009. Nearly 74.8 percent of total exports to ECO accounted for Pakistan, 16 percent Iran, and 4 percent Turkey.

Chart 9: Afghanistan's intra-regional trade with the ECO



Source: Central Statistics Organization

Electricity shortages continued to be a top concern throughout 2010 largely due to security challenges. Within the ECO region, Tajikistan and Kyrgyzstan avail excesses of electric power production. In the past, the region generated 272,274 thousand toe in excess. Afghanistan's demand for this energy resource item could be well met within the region. This concern being among primes, the ECO has been providing all support to the transition economy. Its Special Fund for Reconstruction of Afghanistan generated US$ 11.5 million for reconstruction of social infrastructure in the economy.

Continuous oversight over drug proliferation to/from Afghanistan has been maintained by ECO in cooperation with the EU. The fact that Afghanistan accounts to nearly 90 percent of drug proliferation in the world, attracts serious attention of international community to this challenge. The ECO jointly with EU have completed 50 percent of the regional project aimed at fight against proliferation of drugs intra-regionally.

One of attractive features of Afghan economy in 2010 was that its debt has minimized. Over the past decade 16 new banks have opened to support transition for market system in the economy. The new banking infrastructure seemed to be sufficient for channeling incoming investments to the economy. Against this background, the economy is in the firm driving seat in its transition toward economic recovery from scourges of the past war and recent global economic downturn.

Outlook: years of good harvest and successful development of the country's mining sector is ahead in Afghanistan's transition. China's state owned copper corporation is prepared to heavily invest in the economy. Steady capital flows of estimated US$ 7 billion are expected to support internal infrastructure. Dismantling the outgoing war economy will help local businesses flourish. Businesses, having already made billions on military contracts, will now re-orient for increasing domestic supplies in 2011-2012.

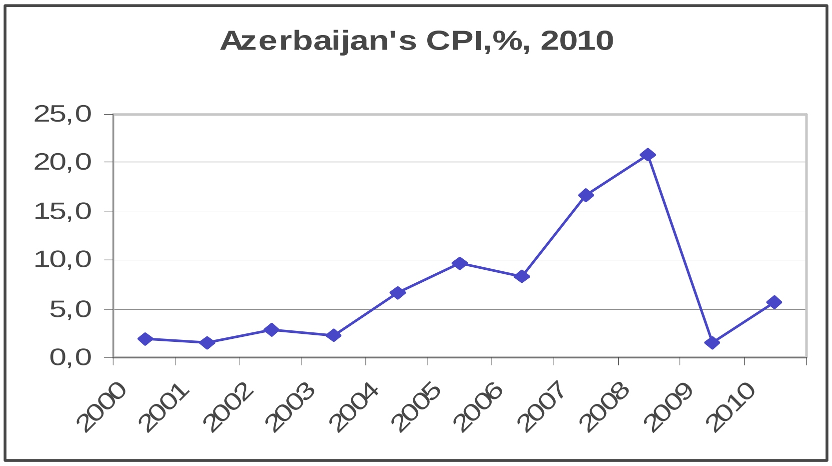
Republic of Azerbaijan

Azerbaijan remains one of world's fastest growing economy. Added to the country's ratings, the World Bank has rated Azerbaijan world's 57th most competitive economy among 189 countries. Strong economic growth and enormous potential for capital investment growth has been impressive in Azerbaijan over the past years. However, in 2010, the country's real GDP grew at 5.0 percent which was far below the 34.5 percent growth rate posted in 2006 as world's first fastest growing economy. Yet, the real GDP per capita at 5 798 US dollars obtained by the country in 2010 helped retain the country's position as third highest in the ECO region. To that effect, Azerbaijan's real GDP equaled to US$ 51,800 million in 2010.

Due to efefctive job generation in the coutnry during 2010, unemployment rate decreased by 10 percent compared to 2009, thus indicating firm 5.6 percent by the year end. Nearly 47.8 percent of Azerbaijan's 9 million people constituted its robust active work force who were mainly employed in the industries sector during 2010. Indutries accounted to 52.6 percent of GDP in the reported period. It thereby contributed to the increasing share of the country's output on production side.

One of challenges posed for the economy in 2010 was rising inflation which picked up again from the low 1.5 percent in 2009 to 5.7 percent by end 2010. On average, over the past decade, it fluctuated at 7.1 percent annual.

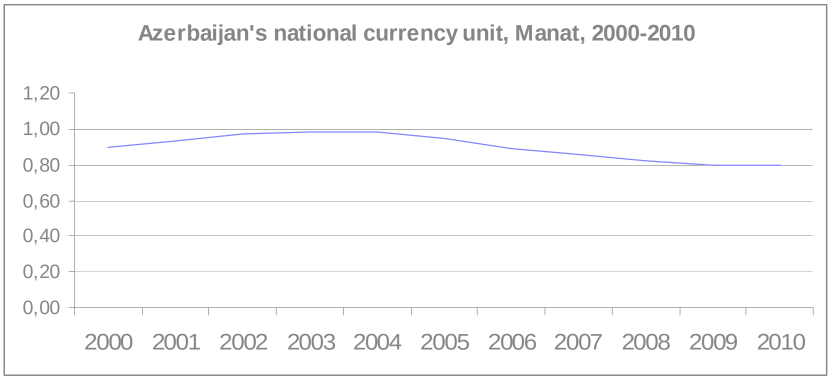
Chart 10: Annual CPI rate, %, 2010



Source: State Committee for Statistics of Azerbaijan

Effectively, in spite of ups and downs in the country's GDP growth rate driven by global economic environment during past few years as well as similar trends in the country's money supply which went from 44.3 in 2008 to 3.7 percent in 2009 and reverting to 35.3 percent in 2010, the national currency unit remained relatively stable over the past decade (pl. see the chart below.) It thus underpinned solid view which was held by the region in respect to further growth in the coutnry's fast-growing banking sector. Well capitalized banks and the increasing deposit base in banking helped the economy to form a strong foundation for aggressive asset growth in the near and long term future. For that matter, one year deposit interest rate over the five year period 2006-2010 remained stable at 12.6 percent rate, on average.

Chart 11. Dynamics in Azerbaijan's currency in 2000-2010



Source: State Committee for Statistics

Owing to prudent budgetary policies of the government that were closely followed in the financial sector with the emphasis on social benefits, public sector revenues increased by 10.5 percent and have collected US$ 14.2 billion by end 2010. The share of taxes decreased by 7.0 percent, thereby significantly relieving its burden on the social sector.

FDI increased by 19.0 percent reaching US$ 3.6 billion by end 2010. In spite that the amount of external debt increased by 12.7 percent in the reported period, the country's debt to GDP ratio remained miraculously low at 7.4 percent, third lowest in the ECO region.

Azerbaijan's current accounts went up by 47.8 percent to reach US$ 15 billion by end 2010. Mainly, it was on the account of external trade which made US$ 27.9 billion showing US$14.7 billion a surplus. Yet again, overall trade turnover filled in its firm niche in the country's GDP accounting to 53.9 percent share with exports at 41.2 percent of total trade.

During 2010, Azerbaijan's imports from ECO countries increased by 10.8 percent compared to their bulk in 2009 where it underwent 7.6 percent decrease relative to year 2008. The positive tendency observed in 2010 was in favor of growing trade turnover between Azerbaijan and the ECO region. Along the similar pattern, the country's exports to ECO countries increased by 49.8 percent in 2010, which highlighted Azerbaijan's growing intra-regional trade within ECO (pl. see the chart below.)

Table 2: Azerbaijan's intra-regional trade with ECO, US$ mn, 2005-2010

	Imports from ECO						Exports to ECO					
	2 005	2 006	2 007	2 008	2 009	2 010	2005	2006	2007	2008	2009	2010
Afghanistan	0,0	0,0	0,0	0,1	0,0	0,0	11,7	32,2	47,6	81,2	57,6	69,4
Iran	76,3	85,9	105,3	97,2	78,7	118,2	166,5	295,9	434,7	355,6	90,1	125,0
Kazakhstan	95,3	127,2	222,3	200,1	63,6	293,6	17,2	105,7	127,6	290,2	142,1	44,6
Kyrgyzstan	1,5	0,5	0,9	1,3	0,8	1,0	1,8	7,0	2,7	3,6	4,6	40,5
Pakistan	2,3	1,5	2,5	6,3	5,9	2,5	0,7	0,9	1,2	0,0	0,1	0,1
Tajikistan	0,1	0,3	0,5	0,5	0,7	1,3	78,9	130,9	51,6	45,6	8,1	8,2
Turkey	313,0	385,0	624,6	807,2	907,0	771,4	276,0	388,1	1 056,3	626,2	107,6	170,9
Turkmenistan	243,0	369,0	40,3	51,6	26,2	13,9	273,6	9,5	13,6	21,0	37,5	200,7
Uzbekistan	**99,8**	**27,5**	**19,1**	**22,4**	**12,4**	**12,3**	**2,8**	**6,9**	**4,5**	**7,5**	**5,8**	20,3

Source: State Committee for Statistics

Outlook: further to the challenge posed by relatively high inflation in 2010, the headline consumer price inflation rate in the first months of 2011 in Azerbaijan will have remained at high levels. The forecast for end of 2011 inflation rate is 7.9 percent, the risk of elevated food price, could facilitate a further rise of inflation to above 8 percent throughout 2012.

Azerbaijan's economy is set to grow at 5.9 percent in 2011 up from the growth rate of the preceeding year but yet lower than in past several years. The forecast is based on projected growth in non-oil sector. Over the medium term, consumption and investment in the economy will most likely to become drivers of future growth. The pattern is silmilar to that of Chinese economy. Exports in the first nine months of 2011 have been decreased by 6.4 percent compared to the same period in 2010. Non-oil exports are expected to grow at 10.4 percent by the end of year 2011 compared to the previous period 2010. Should all other macroeconomic factors remain intact, including those at global level, the firm forecast for surplus in overall trade turnover is to be at 26.8 percent of GDP. It is expected that most of it will account for non-oil sector.

Islamic Republic of Iran

Development of the economy during 2010 was stable having built on the balanced development over the past decade. The growth was estimated at 6.5 percent rate in 2010 with GDP reaching US$ 453 billion. The per capita income increased by 13.1 percent compared to the previous year reaching US$ 6,068. With the major focus on development in social infrastructure, improvements in this domain have continuously prevailed on the economy's agenda. In health care development and education, as an example, the country has stepped up the leading position at inter-regional level. Pricing on pharmaceutical products was marked lowest the region. The social status historically enjoyed by women and children in the Iranian society has been one of predominance ever since early stages of statehood in the past. Eventually, women were freed from duties to financially support their families, which duty in other societies was passed on to women to shoulder men's burden in this matter. The uniqueness in assigning the roles between the two components of the country's overall labor force is in favor of women's liberties from labor obligations. To that effect, men take on nearly 82 percent of obligations in the overall output of work force. Reversely, the exclusive right over familial property is by inheritance and law after women regardless of her financial contribution which in practice could be nil. Given such easy terms, women are at liberty to focus on fostering education of their children throughout adolescent period. As a result, youth literacy in Iran stood at 94 percent, inter-regionally highest in 2010. The same was true to child mortality under age five, which stood lowest in the region at 32 per 1,000 births for the reported period.

As per social wealth indicators, one of them, per capita income − has been stable over the past decade at 6.0 percent, on average over the past decade. This was due to the balanced growth of the economy without erratic booms and busts. In 2010, the per capita reached US$ 6,068. The country has been ranked the lower middle income economy.

With forecasts of further 4.5-5.0 percent growth of the economy during 2012-2013, the income of individual households has been set to see further increase. One of unique features of the Iranian economy was that the structure of individual household earnings has gradually evolved from privately owned businesses since onset. With passage of time, these were being further perfected thereby acquiring specific business trends through generations while retaining such professional occupation within the same individual family ownership. In that sense, small private businesses dominate traditional structure of economic activities in the economy.

During 2010, removal of subsidies to people for fuel has been started. This solidified commitments of the government for market reforms. Due to precedence of this measure in time frame with world's worst economic recession, inflation which kept high throughout year 2009, still persisted during year 2010, but at 12.4 percent lower rate compared to one in the previous year. The country was well prepared for escalation of prices, including on food and basic items which because these had been high, globally[4].

Due to contraction in monthly CPI rates for the most of year 2010, and appreciation of the national currency during the same time frame, trade volumes[5] have increased by 21.1 percent compared to their level in 2009.

On the positive side of reforms, the budget balance has significantly improved by 48.1 percent compared to its performance in 2009. As a result the budget deficit marked 1.4 percent of GDP, much improved one even compared to that of developed economies.

In spite of low debt at 4.9 percent of GDP and 17.6 percent improvement in the country's official reserves during 2010, variation in the level of FDI inflows remained undisturbed, if compared to year 2009. There were several reasons for the economy's FDI to have been low. One of them, among other external contributing factors, was due to a slow down in banking operations caused by structural re-organizing in this sector with the aim to shift of ownership of the country's four largest banks was handed over to private hands. For another, more rigid economic and financial sanctions have impeded otherwise potentially inflowing capital. In addition, capital inflows were under close oversight but outflows were loose. Workers' remittances, which in any developing country would result in positively balancing out the country's current accounts, in Iran these added up to outflows of the country's capital. Outflows, thus, were in the form of capital gained by former Iranian citizens who continued their earnings inside the economy, to remit these to countries of immigration. As a result, the current accounts have worsened over the past year by an estimated 60 percent compared to their balance in 2009 which, for that period, had been decreasing at an estimated 30 percent.

Outlook: on the back of economic potential of the country, ranking as world's second in production of gas and third in oil development, Iran has all economic levers to project a model of a balanced and sustainable economy. With macroeconomic reforms fully ongoing, the economy is self sufficient in meeting its domestic needs. The GDP is projected to grow to US$ 400 billion in 2012/13. With low debt and budget deficit at an estimated 1.3 percent in 2012/13, the economy will be well off focusing mainly on improvements in its current accounts in 2012/13. The forecasts for trade are on upward scale with powerful trading partners, including Turkey, China and other regional partners. There is significant potential for investments which may eventually turn out world's most attractive driver for accelerated inter-regional development growth. The point is that such opportunity has to be earned by Iran's potential investment partners through strong competitiveness as has always been true for the market.

[4] According to FAO, the increase in global food prices during 2010 was at 35 percent on average.
[5] In 2010, Iran's overall trade volume was at US$ 139 billion wit exports at US$80 billion and imports US$59 billion, according to ECOTDB.

Republic of Kazakhstan

Since January 2010, the country has taken on rigorous economic renovation. It stepped up the pace of innovative industrialization of the economy with focus on improvements in social set up. As a result, 152 new businesses were established, — nearly 24,000 new jobs openings generated. In general, the economy availed of 800 operating enterprises, including in small and medium business. Along the path of such progress in business activity, Kazakhstan was ranked as leading in business reforms.

During 2010, real per capita income in the economy increased to US$ 9,000 registering second high after Turkey within the ECO region. Such increase marked essential improvement in the country's wealth indicators since year 1991 when real per capita income stood at US$ 700. The year 2010 signified another milestone development in the economy. And that was the shift to the upper middle income country level.

Against the above impressive performance, Kazakhstan's real GDP reached US$ 146.9 billion in 2010, ranking fourth largest in the ECO region. Over the past decade, the country's GDP grew at an average 8.4 percent. In 2010, it marked firm 7 percent GDP growth rate.

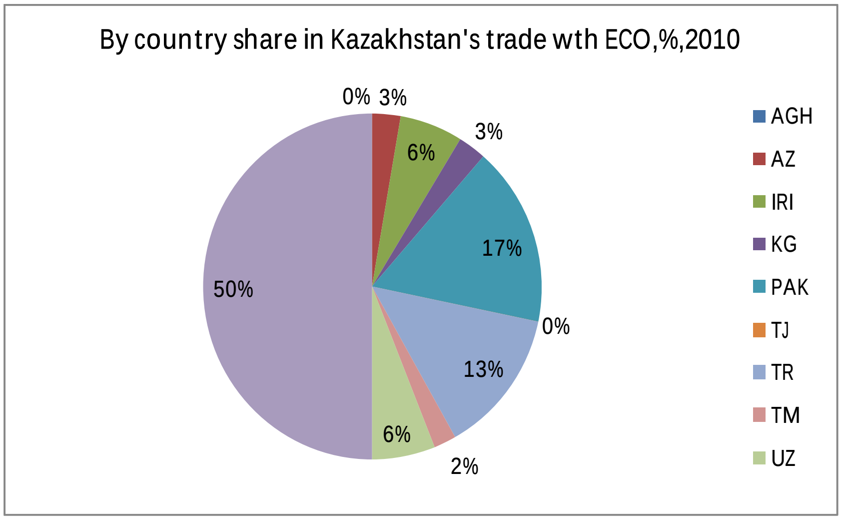
The country's revenues showed 22.7 percent increase on the back of 19.0 percent increase in expenditures during 2010. The share of taxes increased by 7.3 percent compared to the previous year. The current accounts balance went up significantly from the US$ 4.3 billion deficit in 2009 to the surplus of the same amount.

Mainly due to 23.7 percent increase in money supply, annual inflation in 2010 rose to 7.8 percent from its much lower 6.2 percent level in the previous year. At the same time, the 4.7 percent fall in unemployment attributed to the effective measures taken on by the new employment strategy, according which annual budget allocations of up to US $102 million for local businesses will have kept employment up for period 2012-2015. Owing to such effective measures undertaken by local authorities, the rate of unemployment contracted to 5.7 percent by end 2010.

Kazakhstan is active in transport sector of the ECO region. It is a strategically important transit country for the ECO. Transportation system of Kazakhstan rates first in the ECO region by length of rail roads which were at 15 082 thousand kilometers, in total. In rail, it is only preceded by Iran which avails 9 482 thousand kilometer stretch and Turkey 9, 080. More importantly, Kazakhstan shifts a total of 197 500 tons of cargo per kilometer whilst Iran 20 247 tons and Turkey 10 326 ton cargoes. Thus, efficiency ratio of rail cargo is 13 for Kazakhstan while the same indicator stands at 2.1 for Iran and 1.3 for Turkey. In 2010, the country benefited from the launch of the Bandar-Abbas-Almaty container train. Also, regularization of the Tehran-Istanbul-Almaty container train has resulted in activation of trade flows between Kazakhstan and en-route ECO countries.

In terms of Kazakhstan's input to expanding trade volumes in the ECO, the economy's share in the overall external trade turnover in ECO by the end of 2010 equaled 16 percent. The ratio of overall trade to the economy's GDP equaled to 60.4 percent. Of this proportion, 9.2 percent were imports from and 8.2 percent exports to ECO. The country imported from Pakistan at 3.1, Turkey 2.5 and Iran 1.1 percent of its total trade. Kazakhstan's largest partner for its exports in 2010 was Turkey at 4.7 percent (for details pl. see the chart below).

Chart 12. Kazakhstan's intra-regional trade with ECO in 2010



Source: WTO, EuroStat

During 2010, Kazakhstan has succeeded in an impressive breakthrough in human resources dimension. Health care is a key element in the country's ongoing social economic modernization. Health allocations as the budget share of GDP increased to 3.2 percent from 1.9 percent in 2002. Total of 150 Telemedicine Centers connecting the country with foreign clinics have been set up during 2010. The number of hospital beds in Kazakhstan's hospitals was highest the ECO for year 2010, reaching 72 per 10000 of population. Similarly, the number of physicians reached 38 per 10000 of population which compared to the same indicator which stands at 2 in Afghanistan, as an example, hit highest in the region. Based on these human development indicators, Kazakhstan plays a key role in development of health care system in the ECO region.

During 2010, effective innovation of Kazakhstan's education system made it possible for the country's children to attend 35 newly constructed kindergartens, 1534 schooling centers, and 137 private crèches. These were crucial measures undertaken by the government in education. Most importantly, such developments formed pre-requisite conditions for the country to obtain 100 percent coverage of children for pre-school education by year 2020. Given the country's 99.5 percent literacy rate the above measures have been seen as critical steps undertaken by Kazakhstan's economy in its decisive socio-economic modernization.

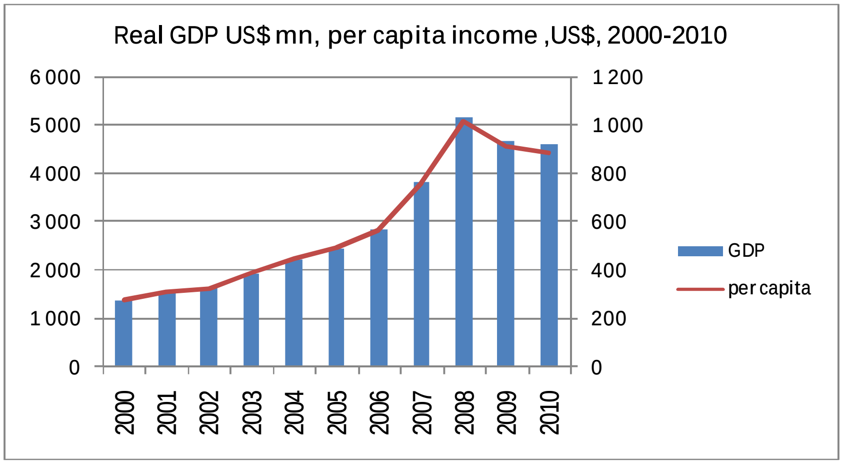
Outlook: for the period beyond year 2014, the country is set forth to realize 294 investment projects at nearly US$ 540 billion in total value. These are viewed to encourage construction, among other sectors of the economy. The country is planning to generate 207,000 new jobs in construction. Growth targets the share of skilled labor to reach 40 percent of total. In addition, individual entrepreneurship is being strongly motivated given that almost US$ 1.1 billion in loans value will be provided to 110,000 individuals, yearly. In the meantime, the share of medium and small enterprises in the economy will grow to nearly 40 percent of GDP. Due to effective generation of new job openings, unemployment will be reduced further down to 5 percent by the end 2011. The country's real GDP targets to move up the scale by another 30 percent by year 2020. Capital assets of the country's Sovereign National Welfare Fund are expected to account to no less than 30 percent of GDP. As with sufficient reserve money in the economy's vault, there is all the potential available inside the country to further retain worldwide leading position in ongoing business reforms. Given that the economy world's second in uranium reserves, its key role in development of nuclear power for economic purposes. Nearly 3 percent of world's hydrocarbon reserves at estimated 17 billion tons are in deposits of Kazakhstan. The fact that almost 98 percent of these are located in northern parts of the economy which has natural cross borders with Azerbaijan and is connected to Turkmenistan and Iran through sea, presents an attractive opportunity for the ECO region to transit energy resources inter-regionally as well as intra-regionally.

Republic of Kyrgyzstan

In 2010, the overall output in the economy contracted to 1.4 percent rate down the growth scale. The 22.8 percent reduction in construction works impacted the level of employment and affected growth in the services sector, which over the past few years, had been largely expanding. Hence, the main cause for contraction of the economy was due to social disturbances in the southern parts of the country which led to temporary closure of cross border outlets thereby slowing down regular economic exchange with neighboring countries. Owing to these reasons, most production capacities stood idle during the first half of the year.

Against the above background and also global economic situation during 2010, the country's real GDP contracted to US$ 4,601 million. Its growth reduced to 1.4 percent down the growth scale compared to the 2009 positive rate. The real per capita fell to US $886 from US$ 910 in 2009 (pl. see chart below.)

Chart 13. Growth in real GDP, per capita income, 2000-2010



Source: State Committee for Statistics of Kyrgyz Republic

In addition, over 47.0 percent of overall FDI stocks, which had previously been flown into the economy for investment purposes, were withdrawn during 2010. Such turnout occurred in presence of nearly 22 commercial banks which remained operational during 2010, including the Bishkek Branch of the National Bank of Pakistan. Further, partial reorganization of the banking system took place due to legal considerations. By the end of year 2010, the combined assets of Kyrgyz banks were reduced by 16.7 percent compared to their level in 2009.

Debt obligations which suddenly came due in 2010, increased to nearly 70 percent of GDP compared to 53.1 percent in 2009. As with 7.1 percent appreciation in the national currency unit, trade has been largely suppressed. Expanding on what was mentioned about FDI in the previous chapter, those FDI stocks, which in the past used to partially support external trade, fell by 47 percent in its volume by end 2010. Added to this, public expenditures increased by 11.0 percent of GDP compared to their level in 2009. Even though the revenues have increased by insignificant 2.6 percent compared to 2009, mainly on the back of 12 percent increase in taxes, these were insufficient to mobilize economic levers for moderate recovery by the year end.

As with the timely help of international donor community, the reserve capital of the economy were refilled to US$ 1,718 million by end of 2010 thereby indicating 8.6 percent increase compared to 2009.

By the end of year 2010, the rate of annual inflation went up to 8.0 percent compared to 6.8 percent in 2009. The price increases on food items escalated by 31.0 percent over the past five year period on basics such as bread, meat, sugar, vegetable oil.

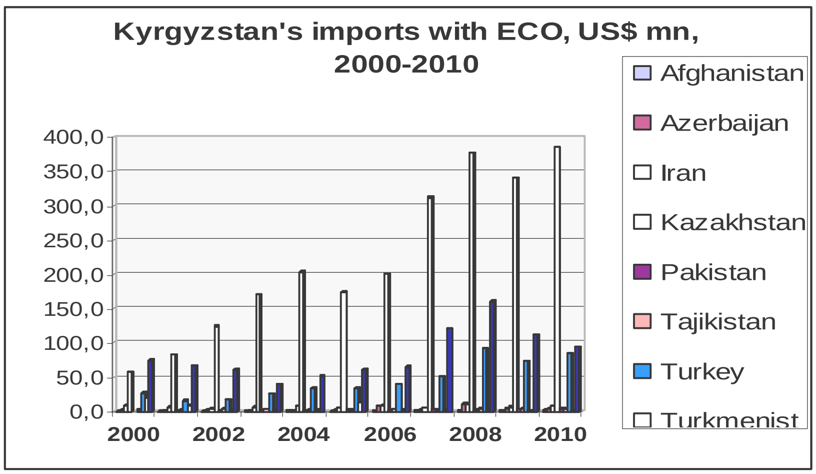
Trade earned US$ 4, 983 million in volume showing 5 percent increase compared to its bulk in 2009. By structure of exports, gold accounted to 38.4 percent, apparel 77.9 and electric power

25.7 percent. Imports, which accounted to 64.6 percent of total trade, contributed to US$ 1.7 billion deficit which in 2010 increased by 7.0 percent compared to its volume in 2009.

The share of Kyrgyzstan's intra-regional trade with ECO reached 17.8 percent of total volumes traded by the country in 2010. Compared to the previous year, the indicator for intra-regional trade has contracted by 5 percent. The tendency, observed over period 2001-2010 in Kyrgyzstan's trade with ECO, was for reduction at an average 5.6 percent. The reasons behind such downturn were diverse, one being in security challenges that Kyrgyzstan has faced throughout 2009/2010. For another, lack of connectivity roads. Among macroeconomic factors that accounted for lower trade volumes were: high inflation rate, strengthening of the national currency, contraction of production output, outstanding debt, low consumption.

Against the above background, Kyrgyzstan's exports to the ECO region during 2010 were at US$ 302.8 million and imports from ECO made US$ 585 million. Imports in 2010 showed 7.0 percent increase. In the structure of Kyrgyz imports from the ECO region, these increased by 16.3 percent from Turkey, Iran 13.2 percent, Kazakhstan 13.4 and Uzbekistan 15.9 percent (pl. see chart below).

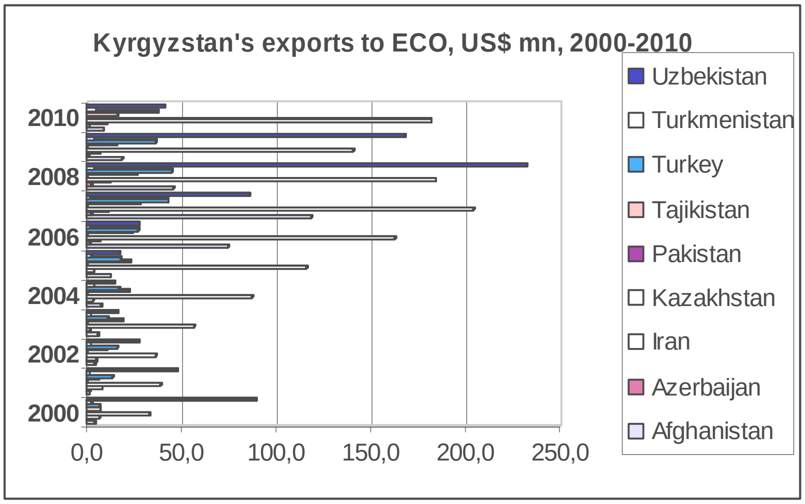
Chart 14. Kyrgyzstan's imports from the ECO, 2000-2010



Source: State Committee for Statistics

The volume of Kyrgyz exports traded with ECO countries during 2010 decreased by 22.9 percent compared to 2009 and made US$302 million only. Of total exports to ECO, 60.0 went to Kazakhstan, 12.2 percent Turkey and, 13.6 percent Uzbekistan (pl. see chart below).

Chart 15. Kyrgyzstan's exports to the ECO, 2000-2010



Source: State Committee for Statistics

Outlook: production of electric power in 2010 was up to the mark reaching 11 857 million kilowatt hours. It showed 8.1 percent increase compared to production volumes in the previous year. In spite of overall slowdown in other sectors of the economy for the past year, this remained intact in its performance. Exports of electric power reached 1 471 million kilowatt hours increasing by 41 percent compared to their 2009 level. Given projections in further increases in production of electric power, which is one of the country's comparative advantages regionally, the economy has all potential of becoming an effective partner within the ECO region. As with shortages of electric power and services related to power generation in some ECO countries, trade on this item between Kyrgyzstan and countries of the region would help participating partners to mutually benefit from such trade exchange. Currently, Kyrgyzstan is exploring possibilities of electric power exports to ECO. With expected progress in this field, economic diversification in Kyrgyzstan's export potential will essentially help offset downturns in its past economic growth.

Workers remittances to Kyrgyzstan accounted to US$ 1.3 billion in 2010. An estimated 350,000 Kyrgyz workers were employed in Russia. Given that ECO countries may consider initiating a mega project, assumingly, in construction which would have the potential to generate employment intra-regionally, the benefits from such regional endeavor to low income countries such as Kyrgyzstan, would be immense.

Islamic Republic of Pakistan

The economy's real GDP grew at 4.1 percent in 2010. Progress compared to that in 2009 when the economy grew at 1.2 growth rate, was visible. At the same time, over the past three years, the overall economic growth was slowed down due to the impact of a number of contributing factors, severe floods, security challenges and low global economic environment, being among them.

Adverse effects of external internal as well as economic factors were most severe for agriculture. As highlighted above, these were mainly due to floods, high energy prices and fuel shortages during the harvest period. In spite of such unfavorable conditions, the weight of the agricultural sector in the economy remained heavy, retaining, over the past five year period, average 21.8 percent share of GDP. It was able to remain intact against external and internal economic disturbances.

Power supply shortages have slowed down otherwise much higher growth in the production sector. In addition, the power sector remained heavily dependent on the budget. Recognition in year 2010 of power sector subsidies which had been released in previous years, have added to domestic debt thereby increasing it considerably.

Thus, external debt climbed up its highest over the past decade, reaching an estimated US$ 55.9 billion. Yet, external debt to GDP ratio still remained at average 31.9 percent over the past five year period which, if compared to debt indicators of world's developed economies, was manageable.

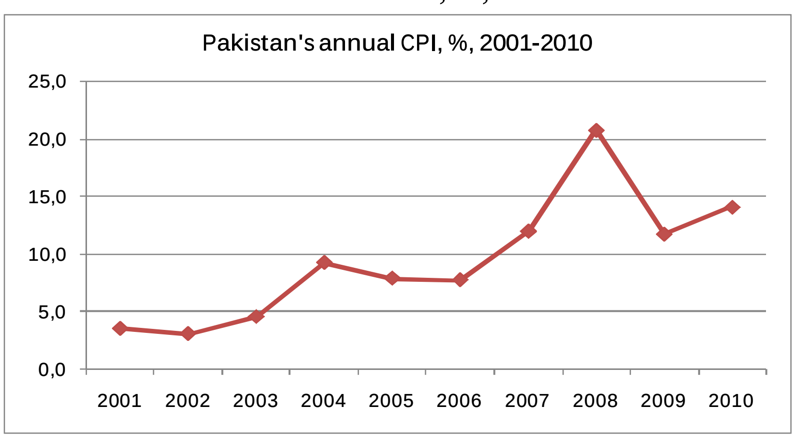
In view of increasing debt and lower than expected revenues in 2010, the economy's fiscal deficit rose to 4.5 percent from its 4.2 percent level in 2009. Sadly, public sector expenditures largely increased by 10.3 percent compared to the previous year. Due to the fact that most growing sectors remained outside the tax net, revenues contracted substantially even though serious measures were initiated by the government to remove tax exemptions and power sector subsidies. By the end of year 2010, however, the share of taxes in pubic sector revenues showed 8.8 percent increase compared to the previous year.

Given expenditure increases which turned out to be higher in 2010, the composition of expenditures reflected a visible set back from development growth focus. Added to this, FDI fell by 42.1 percent which marked considerable drop relative to the 2009 level, at US$ 3,720 million.

In the meantime, by the end of the year, the economy's foreign exchange reserves stabilized at US$ 14.5 billion. It was mainly due to high workers remittances. Given such turnout, capital inflow increases have marked sufficiency for to offset the country's outstanding debt obligations which suddenly came due in 2010. On the background of the above factors, the economy's current account deficit improved by 57.3 percent in 2010 compared to its size in 2009.

Inflation posed a major challenge to the economy as well. Its persistence at double digit levels in 2010 was due to large borrowings. Also, high commodity prices which persisted globally in 2010, and increasing house rentals added to the rise in inflation. Further, the national currency unit has depreciated, sharply. Looking back to inflation's dynamics, peak price escalations at 20.8 percent characterized past trends, in 2008. Due to the government's prudent policies, the rise in inflation was curtailed to 11.7 percent in 2009, while money supply was kept down at shortage of 12.8 percent (pl. see chart below). In spite of the rigorous measures undertaken during 2009, inflation started its rise again in 2010 to hit 14.8 percent, which came to be higher than expected. It thus remained high throughout 2010, high even for a developing economy.

Chart 16. Annual CPI, %, 2001-2010



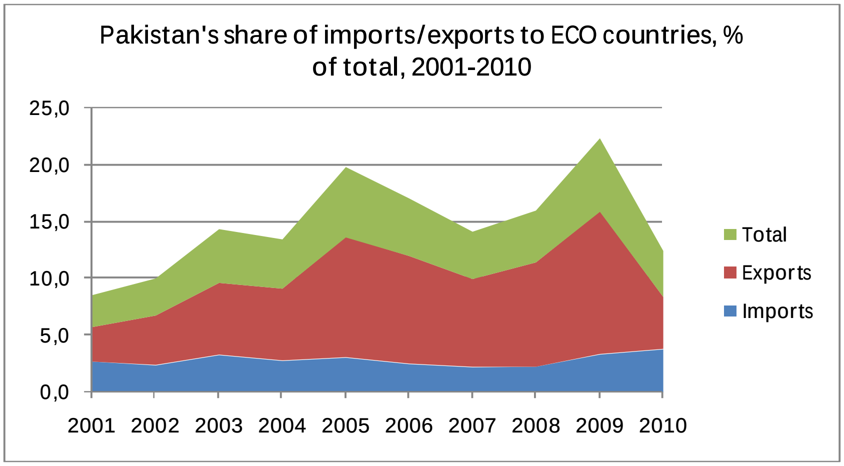
Source: Federal Bureau for Statistics of Pakistan

Trade turnover increased during the reported period, but by a modest 2.8 percent, reaching US$ 54.0 billion. The trade to GDP ratio however decreased to 32.6 from 34.1 percent in 2009. It was largely due to re-balancing in the output by other sectors of the economy.

Similarly, Pakistan's intra-regional trade with ECO countries decreased to 4.1 percent in 2010 (pl. see chart below). In the previous year, though it was registered at much higher 6.4 percent in total trade carried out in 2009. Of total imports from ECO economies to Pakistan, 73 percent came from Iran, 12.0 percent from Turkey, and 10.6 percent from Afghanistan. Pakistan largely exported to Turkey at 57.0 percent of total exports to the ECO region, 23.6 percent to Iran, and 17.9 percent to Afghanistan.

The economy has sea outlets available for further trade improvements within the ECO region. These are being generously offered to ECO trading partners to pace up overall trade exchange. At the same time, the fact that the length of railway roads, which remain unchanged at 7791 kilometers in total since year 2000, indicates at non-diversity of trade routes. These, if expanded further to rail and road, could have added more value to efficient trade diversification and would have saved costs. For another, the fact that the net ton kilometers carried by Pakistan's rail during period 2010 decreased by 17.7 percent compared to transport volumes carried in 2009 poses a challenge for transportation. The reasons behind this are unclear although security considerations may be one such cause.

Chart 17. Intra-regional trade, % of total, 2001-2010



Source: Federal Bureau for Statistics

Outlook: Elections are due in 2013. Contingent on improvements in security, and pace of ongoing structural economic reforms, and also global economic environment, Pakistan's GDP growth may have improved from estimated 3.0 percent in 2011-2012 to 4.0 percent in 2014-2015. Foreign exchange reserves are expected to increase to US$ 17.5 billion by end 2011. Yet, the fiscal deficit will possibly remain a major challenge.

Inflation remains a top concern for near future. Expansion of a viable export base to other manufacturing sectors poses a serious challenge in the long run. Expansion of investment in education is long awaited, especially in the light of Pakistan's 57.7 literacy rate which compared to an average 86.1 percent in ECO region is low. Similarly, expansion of the manufacturing share in the country's GDP will amplify greater resilience of the economy in the long run to external economic shocks. During 2010, the manufacturing sector has increased by 0.8 percent only against its previously obtained size in 2009.

Future increases in electricity production and reducing dependence on foreign donors will probably help further improve Pakistan's regional economic position for both, medium and long term. In this regard, excess in electricity production is available in the ECO region. Pakistan as Coordinating Country in this activity area may consider strengthening its focus on intra-regional trade in energy resources.

Republic of Tajikistan

The real GDP grew at 6.5 percent in 2010 indicating a twofold increase in size which equaled US$ 5,642 million compared to its size in 2009. The real per capita reached US$ 743. In terms of the overall output and growth components, the post crises global economic environment seemed to have had least negative influence on Tajik economy in the reported period. Due to elevated global commodity prices, particularly for aluminum and cotton, the country's revenues have profited considerably. For another, workers remittances[6] to Tajikistan accounted to over 20 percent of the country's GDP during year 2010.

At the same time, in bilateral trade partner arrangements, sharp increases of customs duties on imported oil products from Russia caused unexpected slowdown in industrial production. In addition, the share of industries in GDP shrank by 11.4 percent compared to the same indicator in 2009. To restore the balance in GDP, the services industries increased from 57.2 in 2009 to 58.1 percent of GDP in 2010 − thereby adding to the previously planned increase in overall output by the end of 2010.

[6] According to World Bank estimates workers remittances worldwide reached US$ 325 billion in 2010[6].

The key tendency over the past several past years in Tajikistan's economy was in favor of high workers remittances which increased by 27.7 percent in 2010 compared to their inflows in 2009.

In the light of such incoming transfers, the country's revenues were replenished. Added to this, the services industries increased as the share of GDP offsetting a decrease in industrial output. Major revenue inflows came from taxes which increased from 61.5 to 67.8 percent as the share of GDP.

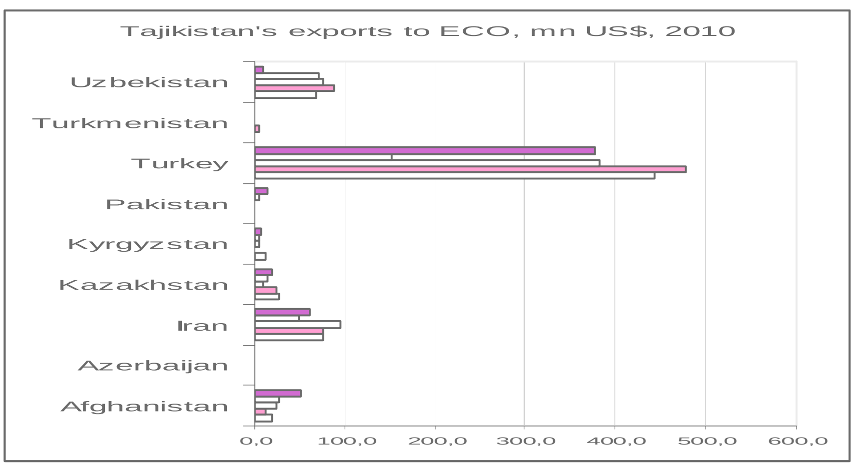
The willingness of consumers to save more was demonstrated at full in 2010. Thus, domestic savings increased at 59.1 percent. This included 11.1 percent increase in the size of foreign currency savings.

On investments, the country's FDI attempted during 2010 to regain its pre-crisis position by increasing almost threefold compared to its level in the previous year. However, by end of the FDI stock which stood at US$ 231 million was yet to double in size to regain it pre-crises level.

Yet again, wheat export embargo being put by Russia in world markets, has significantly contributed to higher inflation in Tajikistan. Consumer prices driven inflation affected the purchasing power of people. Thus, the annual consumer price inflation in the economy in 2010 jumped up to 9.8 from 5.0 percent in the previous year.

Given rising inflation, Tajikistan's trade turnover in 2010 decreased by half, making 2,532 million in US dollar terms. Exports were traded at US$ 1,438 million; imports at US$ 1,085 million. Compared to the previous year, trade performance was far modest.

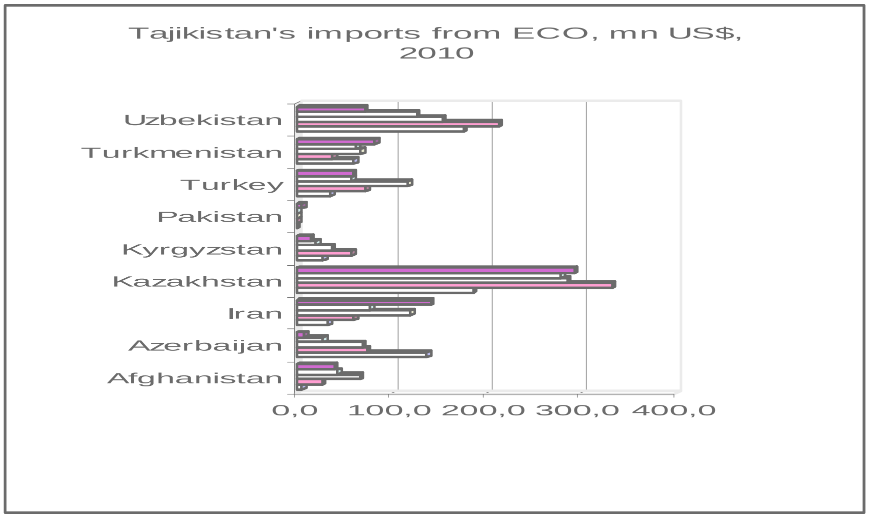
Chart 18. Tajikistan's intra-regional exports to the ECO, 2010



Source: State Agency for Statistics of Tajikistan

On the positive side, much greater integration within the ECO region was achieved in 2010. The share of Tajik intra-regional trade with ECO countries increased considerably from 18.2 in 2009 to 50.0 percent of total in 2010. For comparison, in the previous year, imports were traded at 17.7 and exports 19.6 percent of total Tajik trade. During year 2010, these increased to 50.0 percent for both imports and exports (pl. see chart below.)

Chart 19. Tajikistan's intra-regional imports from ECO, 2010



Source: State Agency for Statistics of Tajikistan

One of the specific features of Tajikistan's economy in 2010 was progress in banking. Similar to the number of banks servicing the neighboring Afghanistan with 25.9 million population, there are 14 major banks registered in Tajikistan servicing 7.5 million people. In addition, 120 micro-financial institutions, 172 branches and 70 departments of credit institutions facilitated the increased economic activity in 2010 reflecting a 10.4 percent increase in the size of total assets held by micro-financial institutions. The national currency unit (Somoni) remained stable at 4.38 against the US dollar compared to its rate of 4.12 in 2009. When looking back at average 3.32 rate over the pre-crises period 2005-2008, the national currency however underwent considerable depreciation during years 2009 and 2010.

In view of stable performance in the country's traditional industries such as in aluminum, cotton and cereals production, a by sector performance of the economy posed quite a disturbing indicator, especially when viewed against the past performances. To be specific: the net ton kilometers carried by rail of cargoes in 2010 was low versus transportation by rail in 2009 which was much better accounting to 1282 million tons per kilometer for that year. In 2010, shift of cargoes, including industrial, however, contracted to 808 million t/km, only. This was an annoying factor given otherwise stable performance of traditional sectors of the economy.

Outlook: economic growth will move upward to potentially reach 7.0 percent rate by end 2012. This will prove possible on the back of improving industrial production which shows further potential to grow at an annual 10.6 percent in 2011-2012. Higher exports of cotton and aluminum added by growing workers remittances will ensure Tajikistan's path to sustainable economic growth in the near future.

Likewise, reserve money is projected to grow from 20.0 to 22.0 percent in 2011-2012. Foreign exchange and gold reserves will also likely to grow to 30 percent of GDP.

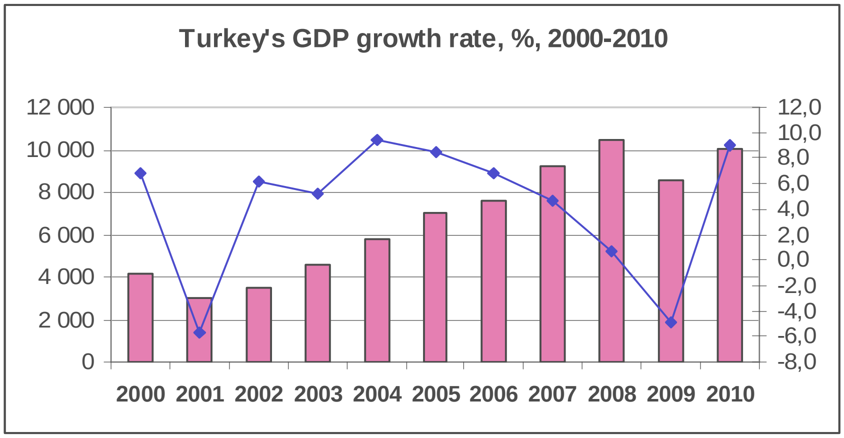
Serious concern will still be posted by higher consumer price inflation, which may hit 13.7 percent by end 2011. High global commodity prices and potential tariffs which might be levied by a neighboring trade partner on fuel may add up to the already high inflation rate. Against the above background, FDI need further improvement to reach their pre-crises levels. This is needed to keep the economy which provides livelihood to 7.5 million people upward growing.

Republic of Turkey

Turkey's economy bloomed at 8.9 growth rate in 2010. This was an unprecedented breakthrough in growth compared to the country's performance in 2009 which was at 4.6 percent down the equilibrium point in growth. Luckily, in 2010, the real GDP increased considerably to US$ 735.8 billion in size (pl. see chart below). Over the past decade, Turkey's economy grew at 4.2 percent and its per capita income hit highest in the ECO region at US$ 10,079 in 2010. The OECD has rated Turkey as its fastest growing economy in year 2010. Turkey is indeed Europe's third biggest manufacturer of motor vehicles. The demand for Turkish construction contracts won the economy world's second position in this field, leaving only China ahead. Being world's largest cement exporter, Turkey has ranked second in global exports for jewelry. It took firm lead in car manufacturing, textile industries, and food processing.

Spectacular was the performance on economic front. On social dimension, with life expectancy at high 76 years for females and 71 for men in the region, Turkey's 73 million people enjoyed the highest per capital income during 2010 at US$ 10,079 indicating 17.8 percent increase compared to the previous year. Just to mention, one of high income countries' wealth indicators such as quantity of vehicles per 1000 population − this figure in Turkey registered 206 during 2010, the highest in ECO.

Chart 20. Growth in Turkey's GDP rate and real per capita, 2000-2010

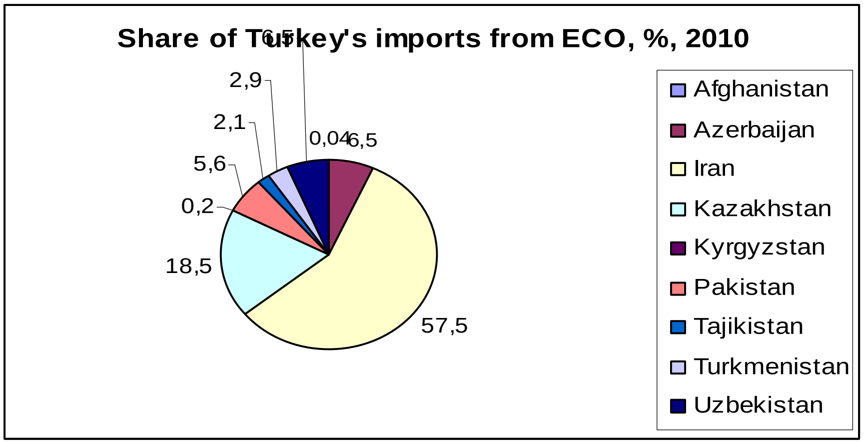


Source: Turkish Statistical Institute

The country's trade performance in 2010 was impressive. It marked 23.1 percent increase in overall trade turnover compared to 2009 and registered US$299.4 billion volume, in total. Trade deficit was at US$ 71.6 billion, only. Such performance pushed the share of total trade in GDP up by 3.2 percent. Machinery and equipment accounted to 27.9 percent whilst agriculture goods and minerals stood at lower 16.6 percent of total trade. Such pro-industry proportion resulted from previous heavy investments in the country's manufacturing sector aimed at high technology improvements.

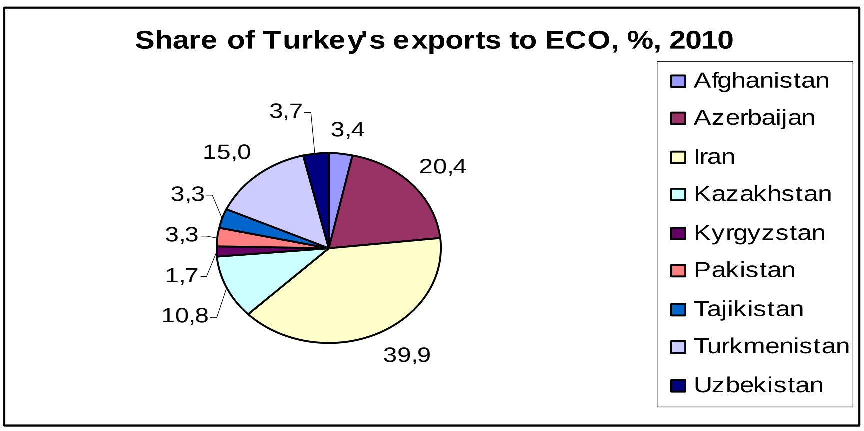
Turkey is ECO's largest trading partner. Its share of intra-regional trade with ECO countries has increased by 30.9 percent compared to intra-trade volumes in 2009, thereby holding firm 7 percent of Turkey's overall external trade in 2010. Looking back to the previous year indicators, Turkey's imports during 2010 from ECO countries improved considerably, indicating 44.0 percent increase. Its exports to ECO increased by 14.8 percent. Turkey's largest partners for its imports from ECO in year 2010 were: Iran and Kazakhstan trading at US$ 7.6 and US$ 2.4 billion each. In the same year, Turkey's largest trading partners for its exports to ECO were: Kazakhstan trading at US$ 3.0 billion, Azerbaijan at US$ 1.5 billion and Turkmenistan at US$ 1.1 billion (pl. see charts below.)

Chart 22. Turkey's imports from the ECO, % of total, 2010



Source: Turkish Statistical Institute

Chart 23. Turkey's exports to the ECO, % of total, 2010



Source: Turkish Statistical Institute

On the budget side, public sector revenue soared by 22.3 percent in the reported period, reaching US$260 billion which was sufficient to offset 14.3 percent increases in public expenditures. Such increase enabled 4.1 percent reduction in the ratio of expenditures to GDP in 2010. Positively, the share of taxes remained more or less at the same level compared to 2009 increasing by 3.3 percent, only.

During the reported period, Turkey has made its corner stone economic choice – to move upmarket. Considerable upgrading of education system with major focus on higher technological breakthrough was the right choice at post crises. As a result, nearly 40 percent of Turkey's revenues from export in 2010 accounted for high or medium high tech sector.

The government's prudent fiscal policies have worked out perfectly well for people. The number of banks has been reduced from 70 to 49 thereby bringing in greater efficiency in banking. Parallel in time, the FDI flows have increased by 4.3 percent against their 2009 level reaching US$ 7.1 billion in 2010. External debt increased also but at dismal 8.0 percent, only.

Serious challenges for the economy during 2010 came from high inflation and current account deficit. The 8.6 percent inflation rate persisted throughout the year. It was due to temporary factors mainly caused by post crises effects. And yet again, 12.5 percent growth in money supply was one of the causes that triggered the rise in inflation from its 6.3 percent lows back in 2009. The current accounts balance remained at US$ 48.5 billion deficit which was large compared to US$ 13.9 billion in 2009. Low domestic saving has affected the current accounts balance. The 17.1 percent drop in the already low bank deposit interest rate which in 2010 stood at 13.0 percent, — suppressed domestic savings, considerably. In spite that Turkey was rated 73rd among world's 189 countries in the World Bank's ease of doing business rating, productivity growth in Turkey's businesses yet posed a challenge to be driven out by regulatory reforms.

Unemployment came to be another challenge. As with nearly 1.5 million new jobs created during 2009-2010 in the economy, structural unemployment still persisted. Owing to the effective measures taken on by the government during the reported period, unemployment fell by 15.3 percent against its 2009 highs. By end 2010, it marked 11.8 percent which was within similar lines compared to those of developed countries in Europe.

At the same time, Turkey is widely known for it well developed tourism industry. As with 33 million tourists visiting the country yearly, it avails all potential in place to lead inter-and-intra regional tourism industry. Even during post crises times characterized by global decline in tourism revenues, including during period 2010, Turkey's tourism industry registered 3.1 percent increase in tourist arrivals. Revenues from tourism rose to US$ 20.8 billion net. In view of stable income in this sector, the forecast for future is that Turkey's tourism industry will generate stable employment not only for its domestic labor force but also for regional − for many years ahead.

Outlook: Over the next seven years growth in Turkey's economy is expected to match or most possibly even exceed that of world's any big economy except China and India. Such forecast speaks sufficiently enough for future upward growth in the economy in the long run.

Republic of Turkmenistan

Turkmenistan is commonly recognized as world's third country with fastest growing real GDP per head. Over the period 2000-2008, it grew at an average 13.5 percent of GDP.

The country is world's fourth largest in energy reserves ranking fourth after Russia, Iran, and Qatar. Owing to such potential, the country plays strategic role not only in intra-regional but also inter-regional development. From the perspective of inter-regional development with Europe, Turkmenistan's role in terms of gas deliveries will have acquired increasing effect in future connecting the ECO region through the Caspian to Azerbaijan. From this stance, Turkmenistan is best to fill in the expected input of ten billion cubic meters of gas into the European Union led Nabucco Gas Pipeline.

In Turkmenistan's cooperation with countries of the ECO region, Iran was priority in 2010. Transportation of gas supplies to Iran have increased considerably during this period. In January 2010, the second gas pipeline route, Dovletabbad - Sehars – Khangeran, connecting Turkmenistan with Iran has been launched for transportation of gas.

Turkmenistan's inter-regional cooperation was remarkable. To that effect, it is an important for the ECO. With participation of ECO countries it started preparatory works for construction of the Turkmenistan-Afghanistan-Pakistan-India pipeline to transport gas. Demand and supply driven cooperation between Turkmenistan and Pakistan has enabled negotiations on this important transport route to come to fruition by the end of year 2010. The gas pipeline is expected for completion by 2015. The outcomes of such partnership once again highlighted effective role of Pakistan as the Coordinating Country in energy sector of the ECO.

A quick look at performance in oil and gas sector of the country in 2010 reveals that main activities were centered on the country's two priorities: technological renovation of its energy system and creation of multiple route delivery network for Turkmenistan's gas and oil to world markets. In this area, Turkmenistan's proven reserves of 25,213 trillion cubic meters of gas have been confirmed in December 2010. Estimates of geological mineral reserves remain at 71,21 billion tons of which 53 billion are in land, and 18.2 billion in sea.

On the back of rich natural reserves, Turkmenistan's investments were modest in preceding years, including in 2008 when the country's FDI were registered at US$ 820 million. However, in 2010, nearly US$ 4.7 billion investments resulted in paving gateway to 120 large scale businesses.

Turkmenistan's trade balance in 2010 registered US$100 million surplus. In 2009, these were in US$ 1.8 billion deficit was mainly caused by reduction in gas imports by Russia. Exports in 2010 increased by 6.3 percent compared to 2009 and reached US$ 10.1 billion. Imports contracted by 11.5 percent compared to 2009 and stood at US$ 10.0 billion by end 2010.

Turkmenistan's largest trading partner in 2010, among ECO countries, was Turkey which traded at US$3 billion. Turkey accounted to 13.9 percent of Turkmenistan's overall trade turnover. Added to this, over 600 Turkish businesses have been registered operating in Turkmenistan in 2010. The composition of imports from Turkey are mainly metal products, vehicles, building materials, electrical appliances, chemicals, food and household items.

One of the unique features pertaining to Turkmenistan's economic performance is the low rate of its external debt. In 2007, debt ratio to GDP stood at 2.0 percent low.

The country's banking sector underwent considerable pre-reforming. Preparatory works were undertaken to initiate the State Programme for Development of Banking System for period 2011-2030. Integration of the country's banking system with that of the world has been envisaged in that strategy document. Works which were long underway on shift to international accounting standards continued further during 2010. Measures to identify functions of Turkmenistan's State Development Bank and its Stabilization Fund have been taken on. These helped to single out the entity, Turkmenistan's State Development Bank, to solely represent the state in all investment projects ongoing in the economy, and draw financial resources for such investments from the Fund. Owing to reformist policies of the government, the budget surplus was reduced to 2.8 percent of GDP from 7.8 percent in the previous year. Inflation was kept at modest 4.6 percent even though it was preceded by 2.9 percent deflation back in 2009. The end of the year rate tuned out favorable for the economy in spite of escalation of global consumer prices for food and fuel.

Given positive macroeconomic indicators of Turkmenistan's economy with real GDP growth rate at 9.2 percent in 2010, the ECO counties are keen on deepening their cooperation initiatives with Turkmenistan. Thus, works were underway in Kazakhstan and Turkmenistan throughout

2010 to revive direct civil aviation connection. This envisaged 2 hours 45 minutes reduction of flight time to connect the two ECO countries.

Outlook: economic outlook for the economy is positive with projected growth rate[7] of 14.4 for 2013 and 2014. An estimated US$ 7 billion is expected to flow into the economy. By year 2030, development of gas is expected to reach 230 billion cubic meters, of oil 67 million tons, liquefied gas 180 billion cubic meters per annum. Future plans of Turkmenistan are to start development of hydrocarbons at Caspian Sea. Currently, nearly 30 licensed sites have been identified for production sharing. Such companies as Petronas, Dragon Oil, RWE, ITERA and others are already working for this objective. Turkmenistan plans to launch a gas plant and concurrent terminal near the Caspian with throughput capacity of 5 to 10 billion cubic meters of gas per annum.

In future perspective, Turkmenistan foresees establishment of the inter-regional energy dialogue between countries of Central and South Asia, Middle East and the Caspian. In this regard, the ECO region could have actively played its economic card as catalyst of progressive and sustainable economic development in the region. The completion of Turkmenistan-Iran-Kazakhstan rail road is expected to potentially result in estimated US $ 2 billion surplus in intra-regional trade in ECO.

For another, the share of private businesses in the economy's output has increased to 40 percent. In the near future, it is expected to further increase to 70 percent. In line with strategic development of the country, the ECO will have foreseen active facilitation to this process through much stronger cooperation in areas as highlighted in this paper. There are ample opportunities that exist in Turkmenistan for SME development given that the country is set to further increase the share of non-state small and medium businesses. Establishment of most needed social and business infrastructure, including transport services for development of the second phase of South Yoloten gas field is one such opportunity for mega projects that ECO might consider participating. Nearly US$ 10 billion have been estimated by the country for developing this field of which US$ 3.4 will be put up by the second phase developer. By the end of 2012, first drilling pits are expected to be fully operational and the necessary social infrastructure should be in place.

[7] The indicator has been derived from the World Bank.

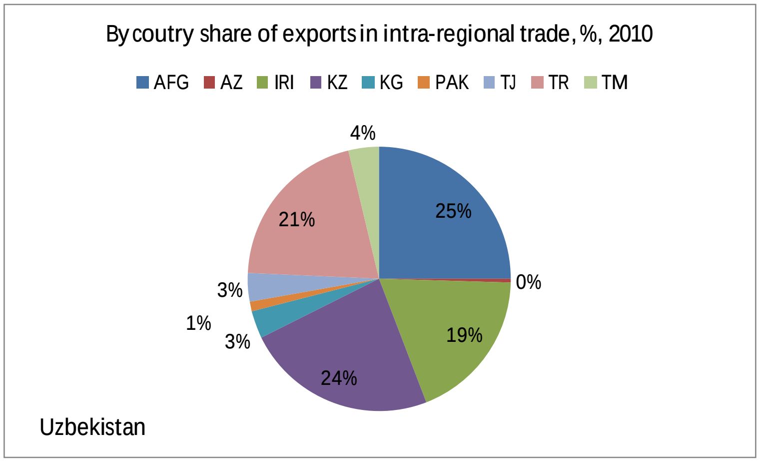
Republic of Uzbekistan

The real GDP grew at 8.5 percent reaching 38.9 billion[8] in 2010. Per capita GDP increased by 25 percent to US$ 1,384.

External trade increased by 2.9 percent compared to 2009 volumes and stood at US$ 21,844 million in total by the end of 2010. Exports traded at US$ 13, 045 million and imports at US$ 8, 799 million. The trade surplus for year 2010 equaled US$ 4,244 million.

Intra-regional trade increased. Imports from ECO countries increased by 24.9 percent reaching US$ 1,639 million. Exports were lower at US$ 568 million showing a slight 3 percent decrease compared to their volumes in 2009. In the share of Uzbekistan's exports to ECO, Afghanistan is largest accounting to 25.0 percent, Kazakhstan 23.5 percent, Turkey 20.5 percent and Iran 18.8 percent.

Chart 24. Uzbekistan's exports to the ECO, 2010

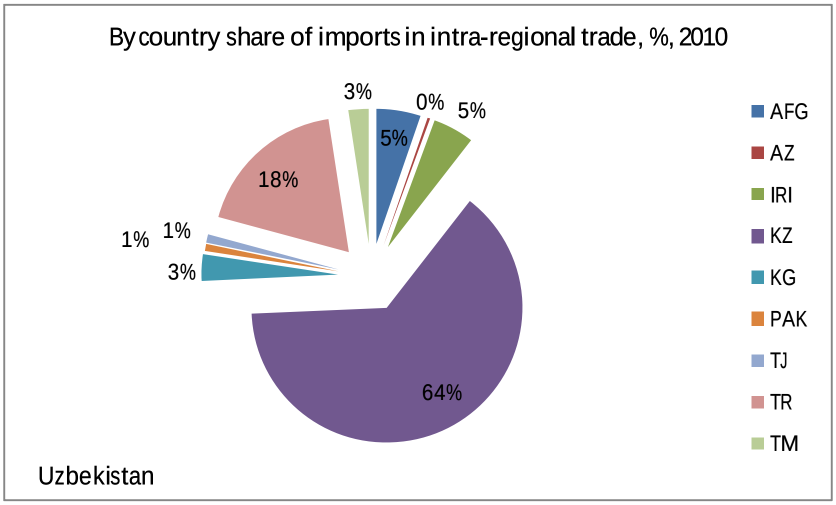


Sources: State Committee for Statistics of Uzbekistan, WB, UNSD

In imports from ECO countries, the largest share in Uzbekistan's intra-regional trading with ECO in 2010 were after Kazakhstan at 63.8 percent and Turkey at 18.4 percent.

[8] According to the World Bank estimates.

Chart 25. Uzbekistan's imports from the ECO, 2010



Sources: SCSU, WB, UNSD

In 2008, fixed capital formation was highest comparing to the over the past decade capital formation in the country. By then, it increased at 20.9 percent compared to year 2007. Owing to inflow of capital for that period, and in spite of the 4.4 percent decrease in fixed capital formation during 2010, absorption of investments during year 2010 reached US$ 9.7 billion, in total. This reflected 13.6 percent increase in capital actually invested in 2010 compared to the previous year 2009. Of this amount, 71.6 percent of investments went to the manufacturing sector.

Mainly, investments went to construction which boomed in 2010 with 75,400 housing units having built for the benefit of local residents. The impressive 16.1 percent increase in residential construction marked one of many economic achievements of the country for the reported year.

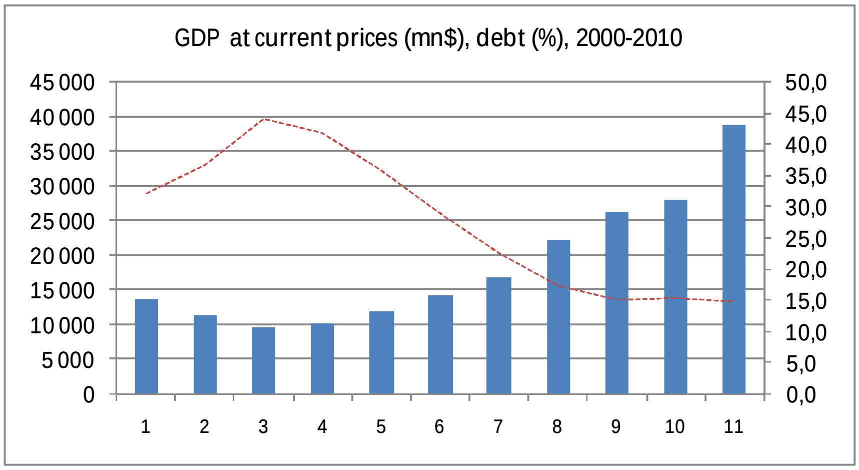
In transportation, performance of civil aviation was spectacular. The total of 1173,2 million ton cargo has been transported during 2010, including by civil aviation which accounted to 84.9 percent increase in the total cargo volumes shifted. This, if compared to only 10.8 increase in automobile transport during the reported year, was remarkable. Civil aviation may offer diverse opportunities for the ECO region with the objective − to increase transportation of traded goods and commodities via civil aviation. Added to this, in the structure of services, transportation accounted for 31.6 percent of the total services provided in 2010.

Outlook: growth[9] of the economy in 2011-2012 has been projected at 8.2 and 8.3 percent. Exports will increase by targeted 16.2 percent and imports 24.1 percent compared to increase in

[9]The indicators for real GDP growth have been derived from those verified by World Bank.

volumes in year 2010. Increase in transport sector of cargo turnover has been targeted at 6.9 percent. On the back of the expected 30 percent increase in the absorption rate of investments, the economy presents an attractive heaven for further investments, including in small and medium enterprises of which share in the gross output of the country will increase to 50 percent whilst presence of SMEs in the structure of the country's GDP will reach nearly 28 percent. Given the country's low debt to GDP ratio, which stood at 15 percent low, and strong growth of GDP over the past decade, the economy has all the potential of moving further up the scale of balanced sustainable development in the medium and long term.

Chart 26. Dynamics in GDP and external debt, 2000-2010



Sources: SCSU, WB, IMF

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Basic Facts & Figures on OIC Member States 2008-2009

Abbreviations

The abbreviations used in this publication to indicate the names of international organizations, regional and sub-regional entities are authentic to those accepted by the United Nations. In the report, the following definitions refer to: y/y - year-on-year; e.o.p. – end of the period, ncu- national currency unit, bn - billion, trn - trillion, $ - US dollar, a. – annual, ave. – average, % - percent, u- unemployment, r.p.i – real per capita income, series – 2009-10, decade – 2000-2010, pre-crises time period – 2006/07, post crises time period-2010 up to present. In the interest of user friendly reading, the sequence of numerical indicators has been omitted, especially when comparing the e.o.p. indicators with those of the previous period. For ease of a reader, these could be consulted in statistical appendix available on ECO web.

The following assumptions have been adopted for the figures presented in the publication: the indicators for 2011, 2012, 2014 are estimates based on forecast figures shown in statistical tables of national statistical offices for the reported period. These have also been derived from official websites of National Statistical Offices (NSOs) of the ECO member states as well as their statistical bulletins. Some of the 2009-2010 estimate data shown in tables may refer to the uncertainties surrounding them and add to the margin of error that would, in any event, be involved in projections. The following conventions are used in this publication: in tables, ellipsis points (...) indicate “not available,” and 0 or 0.0 indicates zero” or “negligible”; a dash (–) between years or months (for example, 2009-10 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, 2009/10) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2010); “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; per capita refers to real GDP per capita, g-rate – growth rate of GDP at current prices, the terms “by end year” and “year-average” refer to the end-of-year annual rate, “i.r.t.” refers to intra-regional trade, “e.t” refers to external trade, term “dynamics” refers the percentage change, phrase “equilibrium point in GDP growth rate” refers to “0”, abbreviation “WDI” refers to world development indicators; the abbreviations ending with ‘stat’ refer to statistical, the terms “on average” and “average” refer to figures showing weighted average indicators; the contracted word “statyearbook” refers to the statistical year book; the term “statdata” refers to statistical data; the term “current accounts” refers to current account balance, the term “M2” refers to transactions money plus saving accounts, money market accounts, and other monies of a respective country; the term “local currency” refers to the unit of account used as a national currency in a given country; the term “local authorities” refers to competent government bodies of a respective country. Codification of countries used in the reports 26 charts and 2 tables are in compliance with the international.