



**ECO Annual Economic Report
2011**

Foreword

The ECO Annual Economic Report 2011 is the 11th edition of the regional economic report on the member economies of the Economic Cooperation Organization (ECO). The Report offers an assessment of major macroeconomic trends in year 2011 in the main activity areas of ECO.

During the reported period, economic performance in ECO region has been substantial. The extent of economic interdependence in framework of regional integration among the ECO members has positively shaped the region's performance.

Owing to strong commitment of governments of the member countries and their willingness to align their economic activities, including on Trade, Transport, Energy and Agriculture, within the regional frame of ECO, the positive impact from such integration and increasing economic interdependence, emerging from practical measures implemented by member states in the priority sectors, has been sensible.

Equally important has been the support of member states to the implementation of regional projects and programmes in ECO. To that effect, the report attempted to reflect major developments in the priority sectors with clear focus on implementation of immediate objectives set by the stakeholders for 2011.

The 2012/13 growth projections have stemmed from upper trends in economic development of the region during 2010 and 2011. Near future performance of the region will be defined by how fast it can expand far beyond the region whilst at the same time maintaining sustainable growth rates in cooperation with regional partnerships. The critical element in progressive growth will be the flexible integrational framework of prioritized activities capable of projecting greater economic interdependence not only onto the region, but far beyond it. In this regard, sound policies of member states' governments and ongoing structural reforms would facilitate the attainment of robust, sustainable, and inclusive economic growth in the region in the long term perspective. This will be for the benefit of people of the region.

For help In preparing the present issue, sincere thanks are to international and regional partners of ECO, including FAO, SESRIC, TurkStat, SCI, UNIDO, and IDB/IRTI. The publication would not have been possible without the support of the ECO Permanent Steering Committee on Economic Research, Editorial Board, and the Member States whose contribution to this report has been significant.



Secretary General

Dr. Shamil Aleskerov

Acknowledgments

The format of the report has been so designed to primarily reflect the developments in the main activity areas of ECO for the reported period, 2011. With the account of the institutional orientation of ECO, which is on regional projects and programmes, reflection of these has been shaped to answer to the implementation goals and objectives of the Organization, set for the reported period by the stakeholders.

In preparing the present report, the first draft of the report has been internally consulted in the Secretariat through peer review of executors and coordinators of those ECO projects and programmes that have either been completed during the reported period or are currently under active implementation stage. The second draft has been consulted with the Members of the ECO Permanent Steering Committee on Economic Research (PSCER). Their contributions via academic counsel for the present report deserve all merit. To ensure relevant editorials, the report has been circulated to the Members of the ECO Editorial Board through electronic communication channels. In this regard, the Secretariat conveys sincere appreciation to the PSCER Members and the Editorial Board for their valued contributions on the main salient issues of the economic development in ECO.

As to compiling and dissemination of the report, special thanks go to the staff of the Secretariat and in ECO member countries who have ensured support and enabled timely dissemination of the report prior to the Meeting of the Regional Planning Council of ECO.

Conventions, data, and assumptions

The present annual economic report presents a succinct analysis of major economic trends in the ten ECO countries for the reported period, 2011. The structure of the report reflects its major focus on the four priority areas of activities of ECO. Given that in the previous reports, the emphasis was sufficiently given to the details of the member countries' performance along the list of macroeconomic indicators, the present report mainly concentrates on the key and most critical areas. Such choice has been motivated by the need to reflect the potential of ECO countries in priority areas with the aim to show in future reports how the existing potential be matched with concrete implementation measures, to utilize regional opportunities.

The data and reference material derived for the purposes of the present report have primarily been contributed by the Member States as well as regional and international organizations. The input data and economic indicators are secondary, not particularly requiring additional analyses, rather verification. In this regard, contribution of the National Statistical Offices of ECO has been immeasurable. The statistical tables containing country data of the NSO are currently available on the ECO web site.

The Economic Cooperation Organization consists of the following member states: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan. In the report, the states have been termed as "ECO" using a membership name and "member economies".

The Report will be provided to the member states. Inquiries about the content of the publication may be forwarded to the Director for Projects, Economic Research and Statistics Mrs. Bayan Adilbekova at the following electronic address: Director.PERS@ecosecretariat.org

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Part I. Main Milestones of Regional Economic Development in ECO

The main milestones of economic development in the ECO region during the reported period have mirrored continuous efforts of the organization that have been exerted for the implementation of its key objectives as specified by the stakeholders for the year 2011. One of the primary tasks has been to achieve greater economic integration and interdependence among regional economies in priority areas of the ECO. Such objectives have included: implementation of ECOTA, effective roads and railways connectivity, electric power interconnection grid, food security and seed development, human resources development with a focus on maternal care, elimination of malaria and tuberculosis as well as fight against drugs proliferation from/to Afghanistan.

Expeditious implementation of these immediate tasks promised to reap economic benefits from efficiency and effectiveness in regional activities, owing, in most part, to complementarity, policy linkages, and cross sector operability in the integrated regional effort. All the above envisaged measures have been backed up by timely research and supply of regionally harmonized and thus credible statistics data.

Given the above-specified work frame for year 2011, the organization has received renewed commitments and economic will of its member countries to realize the prioritized objectives into everyday life of the region, for the benefit of the entire regional community.

Macroeconomic factors that directly contributed to the attainment of the 2011 economic targets of the ECO were, *among others*, capital accounts surplus (5.6%), lower than expected external debt (26.8%), high world prices on fuels, agriculture produce, raw materials which have boosted regional trade exchange. Higher individual household incomes during 2010 have triggered higher domestic consumption during 2011, which resulted in further expansion of the gross domestic product of regional economies, on the consumption side. Thus, by the end of 2011, the combined regional GDP at current prices reached US\$ 1,831,677 million (US\$1.8 trillion). The income of individual households has improved to US\$3983.9 increasing by 5.4% compared to its mark in 2010.

Most ECO regional countries have started modernization of their manufacturing base, a long awaited measure to step up much higher development heights. As a result, investment flows into the real sector of the modernizing economies in 2011 have increased considerably. Turkmenistan's investments in fixed capital increased at 38.1 percent against their level in 2010. Those of Kazakhstan and Azerbaijan increased at 26.8 and 27.0 percent, accordingly.

Table 1. Investments in Fixed Capital in ECO Countries, 2011

Investments in Fixed Capital, % change, 2011	
Countries	% change
Afghanistan	0,1

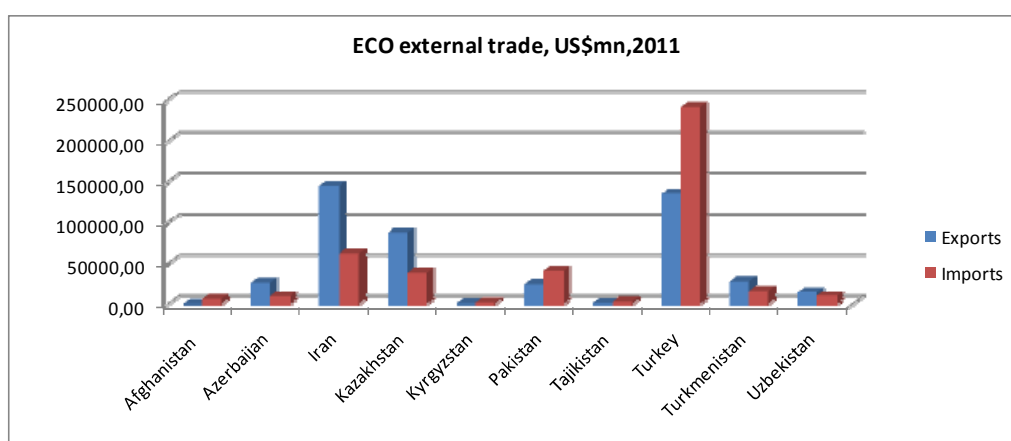
Azerbaijan	27,0
Iran	2,0
Kazakhstan	26,8
Kyrgyzstan	2,0
Pakistan	11,8
Tajikistan	3,0
Turkey	3,0
Turkmenistan	38,1
Uzbekistan	8,0

Source: ECO NSOs

As in world's every region, economic advantages of individual economies entail greater economic interdependence. From this stance, trade has especially become beneficial for the regional countries of the ECO in matching their economic gains with potentially resource deficient areas through the vibrant exchange of goods and services.

The overall volumes of external trade of ECO economies reached US\$ 894,621 million in 2011. Exports were at US\$464,696 million, and imports stood at US\$ 429,925 million. The total volumes of goods and services traded by regional countries during 2011 indicated the 23.5 percent increase compared to their level in 2010. Owing largely to the sufficiently sustainable trade balance in 2011, the region's current accounts rose to a positive 5.6 percent of the combined regional GDP.

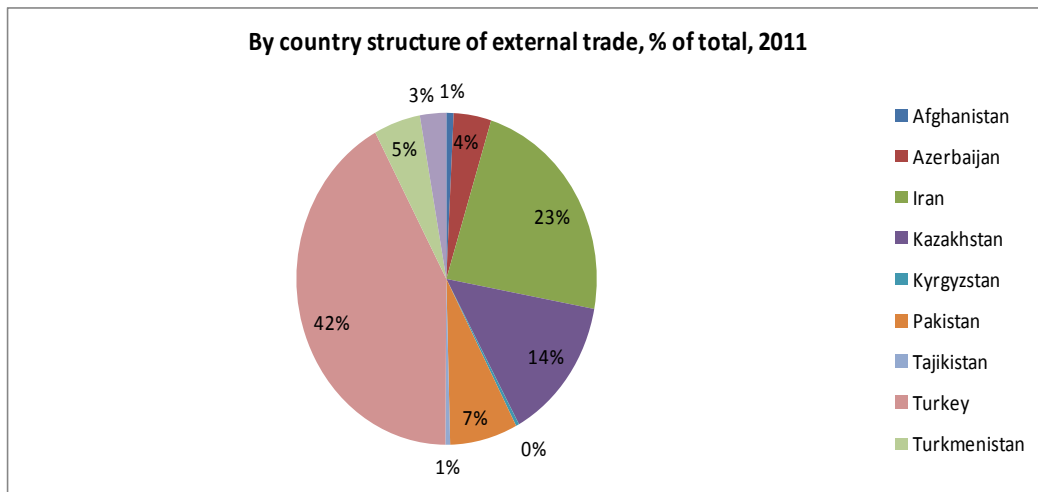
Not a valid link. Chart 1. External Trade of ECO Countries, 2011



Sources: ECO-NOS

Turkey, the largest regional trade partner, accounted to the significant 42.0 percent in the structure of overall external trade of the regional countries. Afghanistan contributed to the regional trade at 0.07 percent of the ECO countries' total external trade.

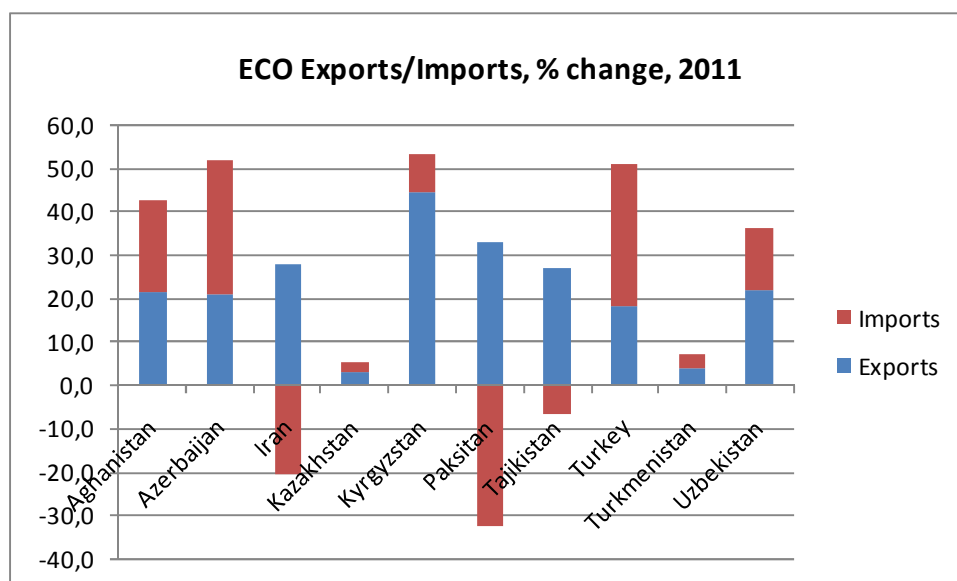
Chart 2. By Country Structure of ECO External Trade, 2011



Sources: ECO NSO

Intra-regional trade exchange within ECO during the reported period reached US\$63,435 million compared to US\$ 44,500 in 2010. Intra-regional exports increased by 29.2 percent and imports by 25.8 percent against 2010 volumes. Thus, exports of Turkey, the lead country in intra-regional trade, increased at 18.1 percent against its 2010 volumes. Trade volumes of Uzbekistan and Azerbaijan traded with ECO countries in 2011, have increased at 21.7 and 20.9 percent. The largest importer of ECO intra-regional trade volumes was Turkey. Its intra-regional imports increased at 32.9 percent, Azerbaijan 30.6, Uzbekistan 14.5, and Afghanistan 21.2. As with the significant increase in the region's overall external trade, which stood at 48.8 percent of the combined regional GDP, the intra-regional trade marked 7.09 percent of the overall external trade volume of the ECO member economies. This rate remained stable over the last decade. The trading patterns have however changed for the better, bringing much need diversity and quality to the regional trade. Such trend signified a positive shift towards departure of ECO countries' trading patterns from raw resources orientation to trade in intermediate and finished goods.

Chart 3. Intra-regional Trade in ECO, 2011

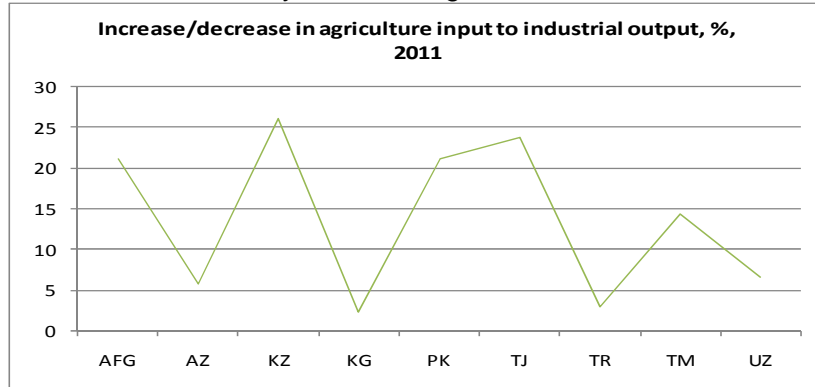


Sources: ECO-NSO

Whilst trade, investments, and current accounts were moving along upper scales during 2011, the unemployment rates in some countries that underwent heavy structural reforms, rose as did the inflation rates. Gradual price increases, largely maintained over the past five years period by these countries at relatively lower rates owing to rigid monetary and fiscal policies, have been let loose in 2011, following world's higher inflationary trends. Thus, the situation has triggered cyclical increases in salary scales and thereby forced considerable work force off employment - in pursuit of maximum profitability by businesses at the cost of reduction in employment. Consequently, in some ECO countries, including Pakistan, Iran, Kyrgyz Republic, the annual consumer price index rose to 13.7, 21.5, and 16.6 percent average level by the end of 2011. The annual indicator of inflation for the region in 2011 stood at 9.7 percent and unemployment at 5.6 percent. Compared to the same period in 2010, these have increased by 15.4% and 17.8%, accordingly.

In spite of the above mainly structural trends, evolving from world's fiscal and monetary reforms in some advanced economies, performance in the ECO countries' real sector was encouraging. Agriculture, one of the four priority areas in the ECO, has shown impressive results.

Table 2. Dynamics in agriculture, %, 2011

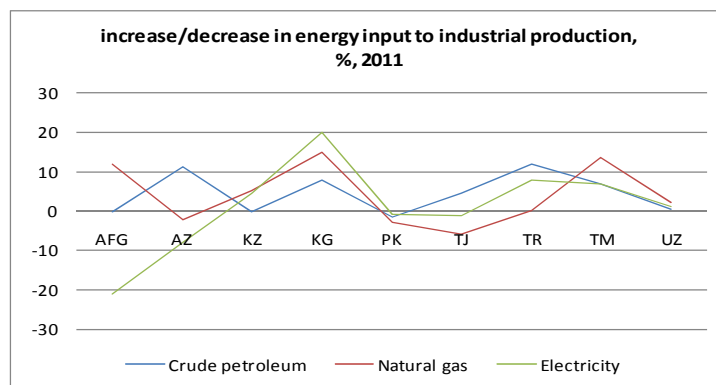


Source: ECO NSO

The highest agriculture inputs to the industrial production were in the countries which had well developed agribusiness infrastructure. Turkmenistan and Kazakhstan have over the past period made heavy investments in modernization of their agriculture infrastructure. As a result, contribution of their agriculture inputs to the overall industrial production increased at 14.3 and 26.1 percent level in 2011 compared to 2010. In some regional countries, including Tajikistan and Kyrgyz Republic, such inputs have attributed to industrial labor productivity in agriculture.

In energy, another priority area of the organization, production of electricity increased at 6.1 percent, natural gas 5.2 percent, and crude petroleum 2.6 percent during 2011. Historically, the region has been recording significant excesses of energy sources production over consumption. Thus, in 2004, the total production of energy in thousands tons oil equivalent reached 632435 but consumption made 379753 thereby offering for external and intra-regional markets the possibility to exchange the loose energy excesses for the benefit of regional users.

Chart 4. Dynamics in energy, %, 2011



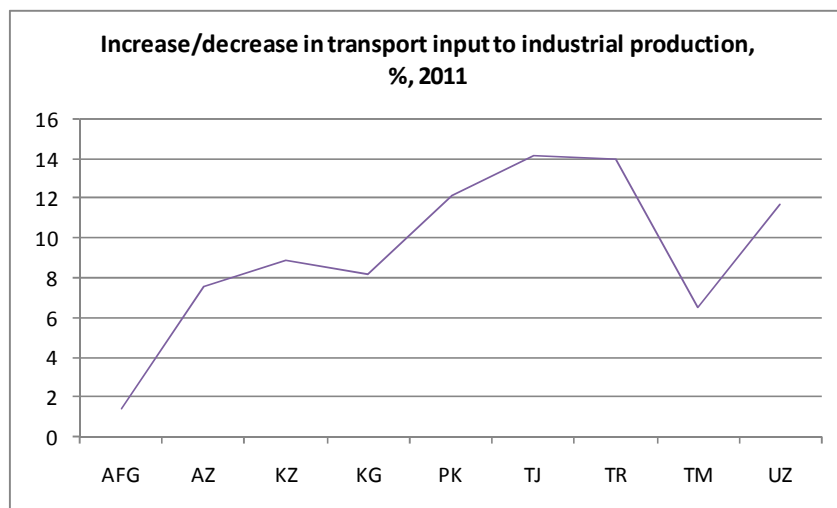
Sources: ECO-NSO

Transport sector, strategically important activity area in the ECO, has provided connectivity and transportation services to the 418 million population of the region.

The railway roads, however, remained at 52 210 kilometers of their length as registered in 2009 with little change. On the other hand, the total length of asphalted roads in the region registered 426000 kilometers in 2005. Since then, in Azerbaijan, Kazakhstan, and Pakistan, these roads have been improved and the length of asphalted roads increased by the end of 2011 at 1.2 percent, 3.9 percent, and 37.7 percent rate against their mark in 2005. Roads covered with asphalt in Iran and Turkey have increased during 2010 by 22.7 and 11.5 percent against their recorded length in 2005.

Transportation of cargoes by all transport means in ECO countries, especially in Kazakhstan marked the 23.0 percent highest increase in the region in 2011 compared to cargo volumes transported by the country in 2010. The second essential increase in cargo transportation was in Uzbekistan at 8.0 percent rate.

Chart 5. Dynamics in transport, %, 2011



Sources: ECO NSO

Progressive future developments on regional airlines routes have been especially desired by ECO stakeholders during the 20th Regional Planning Council Meeting (18-19 February 2010, Turkey) and 21st RPC (17-19 May 2010, Iran). If realized, the follow up actions could have led to the creation of effective airlines intra-regional linkages to meet economically feasible aspirations of the Member States. Generation of employment, currently strong in this sector, has been another favorable factor at hand, capable of contributing to the development, implementation, and expansion of mega-projects on regional civil aviation.

On cargo transportation, Turkey and Kazakhstan have achieved regional heights increasing transportation mass of cargo at 20.0 and 23.0 percent rate compared to 2010. Uzbekistan and Azerbaijan were in mid tier level for this indicator of progress

in transportation, increasing their transported cargo levels at 8 and 9 percent, accordingly.

Table 3. Cargo Transportation in ECO, 2011

Cargo transportation, % change, 2011	Column1
Afghanistan	1,0
Azerbaijan	8,0
Iran	..
Kazakhstan	23,0
Kyrgyzstan	5,0
Pakistan	...
Tajikistan	6,8
Turkey	20,0
Turkmenistan	3,1
Uzbekistan	9,0

Sources: ECO NSO

Having described the above macroeconomic conditions of the region's development in 2011, the mention should be for social stability and coherence in economic policies of individual countries of the region. The very fact that these factors have played a consolidating role in ECO countries' up-scale economic growth proves true, especially given significant public sector budget allocations for social sector. As a result, the level of literacy in ECO countries in 2011 rose to 88.3 percent, on average. Other parameters of growth in human resources development in ECO have been reflected in detail in the ECO Regional Report on Health Related Millennium Development Goals, currently available on ECO web.

In conclusion, the world economic environment has ensured the continuous development growth to the countries of the ECO region. No major security hazards or global systemic risks, on the external front, have caused discontinuity of business operations. The ECO region was able to contribute the estimated 2.0 percent share to the world's trade. The regional production output stood at estimated 1.1 percent of that of world. This became possible at the background of 6.8 percent regional GDP growth rate in 2011, supported by the above reflected economic activities in the four main priority areas of the ECO region.

Part II. Country Reports

Afghanistan

The country has been facing development challenges throughout 2011. Early signs of much strengthened institutional capacity during 2011, due to the prevailing transitional insecurity, have been minimized, in some instances. The GDP at current prices reached **US\$25,658 million** in 2011.

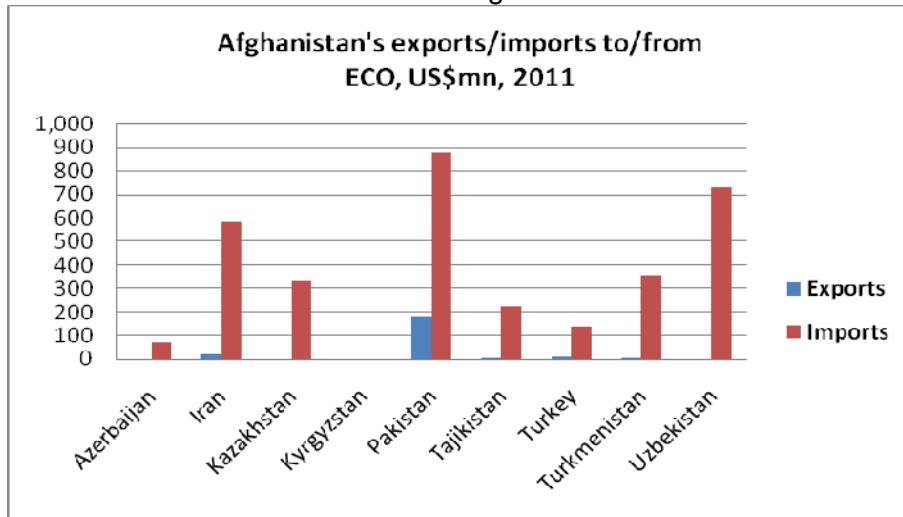
Afghanistan's 2011 annual inflation rate declined to **10.5** percent compared to 17.7 percent in 2010. High inflationary trends that persisted in the country over the past few years have gradually contributed to the suppression of domestic consumption. Exports stood at US\$376 million, indicating 3.1 percent decrease compared to the previous year. In the structure of GDP, exports have accounted to 0.01 percent. On the other hand, imports rose to US\$6,390 million, increasing at 19.3 percent compared to 2010. In the GDP structure, imports accounted to 24.9 percent.

Intra-regional exports to ECO economies have contracted by 16.3 percent to US\$222 million, in volume, in 2011. Reversely, imports increased by 21.1 percent, reaching US\$3.314 million.

In the structure of Afghanistan's imports, trade inflows from Azerbaijan increased by 88.7%, Iran 33.6%, Kazakhstan 37.5%, Pakistan 31.8%, Tajikistan 56.8%, Turkey 21.0%, Turkmenistan 66.8%, but those from Uzbekistan contracted by 48.6%.

Exports to Afghanistan from Iran decreased by 110%, and those from Kazakhstan increased by 100% as did from Pakistan by 7.0%, Turkey 9.0%.

Table 1: Intra-regional trade



Source: Afghanistan – ECO NSO

In 2011, the country's current accounts yet remained positive at 0.1 percent of GDP owing, for the most part, to the capital inflows of the portion of the previously pledged US\$7billion international aide.

At the back of higher production rates in agriculture sector, growth of the country's GDP increased at 5.7 percent in 2011 against 3.2 percent in 2010, which indicator for the transition economy, constrained with security challenges, was a promising sign of much higher near future growth.

Agriculture production was supported by a significant expansion in the irrigated land area, which increased at 7.2 percent rate during 2011, resulting from huge investments in improvement and upgradation of the country's water and irrigation system. However, wheat production fell by 33.4 percent and that of rice by 7.1 percent. This reflected the shift in agriculture production patterns toward cattle breeding in 2011 where an overall quantity of sheep and goat were increasing at high 6.8 and 11.0 percent rates. With the account to the intention of the ECO to focus on raising high milk and wool yielding goat breed in the region, the above indicators stood positive, especially for entrepreneurship and new business opportunities in this area.

On energy, production of natural gas in 2011 increased at 12.0 percent but of electricity decreased by 21.1 percent due to insecurity of manufacturing facilities. Local population was mainly relying on traditional hard coal for their individual households and, thus, production of this energy source increased at 51.0 percent commensurate to domestic consumption during 2011. If over the period 2000-2010 excess volumes of electricity production, less domestic consumption, were at average 223 million kilowatt hours, in 2011, however, such production fell sharply.

Yet, the previously recorded excesses of electric power may, if reverted to their historical levels, pose new business opportunities for the ECO regional countries for energy exchange, to become one of economically beneficial patterns of viable intra-regional cooperation.

Natural resources management in Afghanistan has become one of the key focuses in the country's economic policy. In 2011, energy sector has emerged as a center of gravitation of foreign direct investments.

Transport sector has witnessed significant improvements during 2011. The length of asphalted roads increased at 3.3 rate and expansion of railways reached 106 kilometers. Upgradation of nearly 1,500 kilometer of on- surface roads was started with the assistance of international partners. Added to this, construction of the rail link, connecting borders between Afghanistan and Uzbekistan through Mazar-e-Sharif was completed in December 2011.

During 2011, the quantity of motor vehicles increased at 8.3 percent, commercial vehicles at 12.1 percent, the number of airline passengers carried in the reported period, however, contracted by 7.2 percent due to rehabilitation works started at country's five air terminals.

Azerbaijan

The country's GDP grew at 0.1 percent rate in 2011 compared to 5.0 percent in the previous period. As with impressive increase in the country's savings at 31.8 percent during 2011, domestic consumption has contracted by 13.8 percent rate. At the same time, during the reported year, modernization of the industrial sector has become intensive. It resulted in the 4.0 percent increase of the industrial share in the structure of GDP to the 53.9 percent mark. At the background of innovational economic activities in the country during 2011, the level of foreign direct investments into the economy increased by 15.9 percent, reaching US\$ 4,293 million.

The current accounts were maintained at significant surplus of 28.7 percent of GDP, highest in the region for year 2011. Annual average inflation rate rose to 7.9 percent from its 2010 level of 5.7 percent, which compared to that of upper middle income economies was high but compared to other developing countries of external regions was normal. Reversely, unemployment was sustained at low 3.0 percent from previously registered 5.0 percent in 2010. In spite of the temporary economic hardships in 2011, the per capita real GDP, owing largely to the prudent government policies, increased at 15.4 percent reaching US\$7,159, third highest in the region.

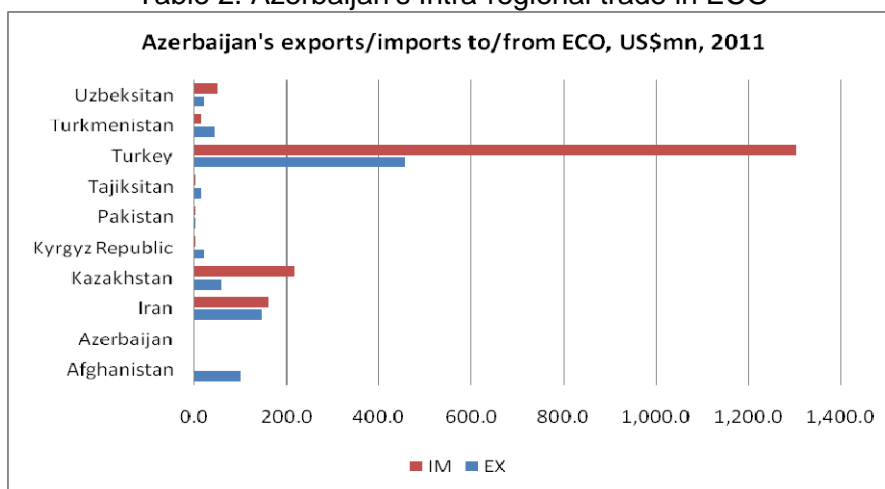
All the above reflected development indicators of Azerbaijan's growth in 2011 were possible at the background of low external debt, which stood at modest 9.2 percent, one of lowest in the region.

Given the country's modernizing macroeconomic background in 2011, entailing the subsequent contraction of the production output, exports have increased by a modest 3.7 percent as the percent of GDP while imports increased by 18.8 percent. The overall external trade reached US\$ 36,326 million in 2011. Trade balance stood at 24.3 percent of the balance of payments, increasing from its 2010 mark by 18.9 percent. Trade surplus registered US\$16,814 million.

Exports to ECO countries in 2011 increased at 20.9 percent, reaching US\$859 million. Exports to Iran increased at 13.7%, Kazakhstan 23.5%, Pakistan 10.0%, Tajikistan 37.9%, Turkey 62.5%, Uzbekistan 7.3%, to Kyrgyz Republic and Turkmenistan contracted by 91% and 357.2%, accordingly.

Imports from ECO countries in 2011 increased at 30.6 percent, reaching US\$1,750 million. Imports from Iran increased at 26.4%, Pakistan 16.7%, Tajikistan 53.6%, Turkey 40.8%, Uzbekistan 75.7%, from Kazakhstan, Kyrgyz Republic, and Turkmenistan declined by 35.1%, 11.1%, and 7.8%, accordingly.

Table 2. Azerbaijan's Intra-regional trade in ECO



Source: Azerbaijan – ECO NSO

On transport, the share of transport inputs to the overall industrial output in 2011 decreased to 7.6 percent compared to 8.9 percent in 2010. However, the length of asphalted roads and railways in the country remained unchanged at 19000 and 2079000 kilometers. Significant dynamics was observed in civil aviation: increase in the number of passengers carried by airlines was at 27.0 percent rate compared to 2010. Gross tonnage of commercial ships increased by 2.3 percent. Net ton kilometers carried by railways declined by 5.6 percent, due to prevailing reliance on transportation by sea. The number of registered motor vehicles and passenger cars increased at 5.3 and 6.3 percent rates.

On energy, the country's production of crude petroleum contracted by 11.4 percent, reaching 45626000 metric tons of which 12.2% met the needs of domestic consumption. Production of natural gas also reduced by 2.2 percent, reaching 25,728 million cubic meters of which 65.1% was available for external markets. Electricity production increased by 7.8 percent and made 20,294 million kilowatt hours, of which 23.5% was for the exchange at external markets.

On agriculture, the share of agriculture in the overall structure of the country's GDP remained unchanged against the 2010 share of 5.5 percent, one of smallest in the region. Within the sector, production of cereals increased by 18.7%, wheat 13.6%, production of raw cotton indicated 42.4%, highest rate in the region for 2011. Production of rice, however, declined by 7.8%. Given the country's economic specificities, fishery production increased at 2.0%, forestry, reversely, fell by 186%. Strong development of private sector was one of definitive features of the country's agriculture sector output as component of industrial production in 2011, which increased at 5.8 percent rate compared to 2010, in support of varied diversification in the economic development model of the country.

Iran

In 2011, the macroeconomic environment in Iran was stable as in the previous period. The real GDP grew at 5.9 percent. Growth was lower than in neighboring regional countries but stable with no sharp ups and downs. However, the annual inflation rate rose to 21.5 percent during 2011 following upward trends in advanced economies and in some rapidly industrializing developing countries.

The country's current accounts balance went up by 5.2 percent compared to its level in 2010. External debt was low at estimated 10.0 percent of GDP. The unemployment rate remained high at 12.3 percent annual.

The country's overall external trade stood at US\$ 144,835 million of exports and US\$ 61,808 of imports leaving the trade balance at a surplus.

Intra-regional trade with ECO countries increased in exports at 27.8 percent and imports at 20.8 percent rate compared to the 2010 volumes.

By structure of the intra-regional trade, the largest share of imports came from Turkey and Pakistan, followed by Turkmenistan, Kazakhstan and Uzbekistan. The highest increase in the country's intra-regional imports in 2011 accounted to Kazakhstan at 8.7 percent and Uzbekistan at 29.7 percent compared to the levels traded with these countries in 2010. Iran's exports to ECO countries increased to

Afghanistan at 38.8%, Azerbaijan 19.2%, Kazakhstan 18.9%, Pakistan 16.5%, Turkey 26.2%, Turkmenistan 22.0%, and Uzbekistan 11.6% as compared to 2010.

Chart: Iran's intra-regional trade, % change in exports, 2011



Iran-ECO NSO

In transport, during 2010, the length of asphalted and railway roads increased at 6.0 and 3.0 percent compared to their marks in 2009. The net ton kilometers carried by railways increased at 7 percent rate during year 2010. The number of airlines passengers carried increased at 6 percent. The transport input to the overall industrial output in 2010 stood at 6.0 percent level.

In energy, production of electricity in 2010 compared to 2009 volumes increased at 99.9 percent given that consumption increased by 7.9 percent, only. Natural gas production increased by 4.1 percent, and of crude oil by 1.4 percent.

In agriculture, wheat production reduced by 11.0%. Reversely, raw cotton production increased by 52.0% and fruits yield by 1.0%. On cereals, oil seeds, pulses, barley, and paddy, the 2010 agricultural output has been reduced to lower levels due to low precipitation and influx of lower cost food items from global exporters of agricultural produce. In 2010, the agriculture inputs of the country to the overall industrial production was at modest levels.

Kazakhstan

The country's GDP grew at 7.5 percent rate. The volume of GDP at current prices reached US\$188,050 million.

At the back of the higher trade turnover, annual consumer price index fell to 7.4 percent from 7.6 percent in 2010. Owing mainly to the positive trade balance, current accounts marked a 7.2 surplus as the percent of GDP.

Macroeconomic factors that influenced the country's performance during 2011 were favorable, leaving external debt which was inherited from previous years and largely attributed to private sector lending from external financial markets as the matter of increased attention of the national bank. Owing to the favorable investment environment and the country's prudent economic governance, direct investments increased at 59.0 percent compared to 2010 reaching US\$9,129 million in 2011.

On trade, exports stood at US\$ 87,723 million and imports US\$ 38,078 million in 2011 increasing against the 2010 volumes by 25.8 and 14.0 percent, accordingly.

On energy, crude petroleum production in 2011 reached 67765000 metric tons, contracting by 0.4 percent compared to the previous year, mostly due to temporary break-ups for restructure and renovation of oil refineries. Natural gas was produced at 39531 million cubic meters increasing at 5.3 percent against the 2010 production rate. Generation of electricity reached 86586 million kilowatt hours increasing at 4.5 percent in 2011 compared to this indicator in 2010. Domestic consumption of the above energy items stood at 20% for crude petroleum, 98% natural gas, 83% electricity.

On transport, the milestones in the country's economic performance in 2011, *among others*, were: completion of rehabilitation of the Almaty-Bishkek road, which boosted intra-regional trade exchange between the two neighboring ECO countries which, in its turn, triggered the development of small size trade entrepreneurship. The total length of asphalted roads reached 86.2 thousand kilometers in 2011. Both countries have been part to internationally supported US\$700 million transport corridor - Western Europe-China. The share of transport inputs in the overall structure of the industrial output in 2010 and 2011 accounted for US\$2,163 and US\$2,670 million, indicating the 18.9 percent increase, on average. The total length of railways reached 14892 thousand kilometers. Net ton kilometers carried by railways increased by 4.5 percent compared to 2010. The number of passenger cars and airline passengers carried in 2011 increased by 13.2 and 18.2 percent, respectively. Overall cargo transportation in the country increased at 23.0 percent rate in 2011.

On agriculture, its production increased from (-12.9) to 26.1 percent in the overall structure of the country's industrial output. As the share in GDP it has yet accounted to 4.5 percent, smallest in the region, ahead of Azerbaijan. Wheat production (the country's first top agriculture item) increased at impressive 54.6%, barley (second top item) 54.8%, raw cotton 28.6%, however, production of rice decreased by 7.6% so did cattle by 0.8%. Forestry and fishery have produced increasing revenues to the country's budget at US\$ 5310863 and US\$2744991 indicating 22.6% and 28.0% percent increase in 2011 compared to 2010.

Kyrgyz Republic

During 2011, the economy was largely recovering through reconciliation and economic stabilization from consequences of the past social unrest, which continued from April to June 2010. Restoration of investor confidence was critical at that time, especially given that institutional reform process for the improvement of the legal framework proceeded throughout the entire 2011. Exhaustion of treasury vaults in 2010 led to the over 70 percent external debt was reduced by the end of 2011 to 47.1 percent of GDP. High annual inflation rate at 16.6 percent resulted from the increasing world prices for food and fuels. However, the national currency unit has been largely stable over period 2000-2010 at 43 KGM per US Dollar, depreciating during 2011 by 0.39 percent, only.

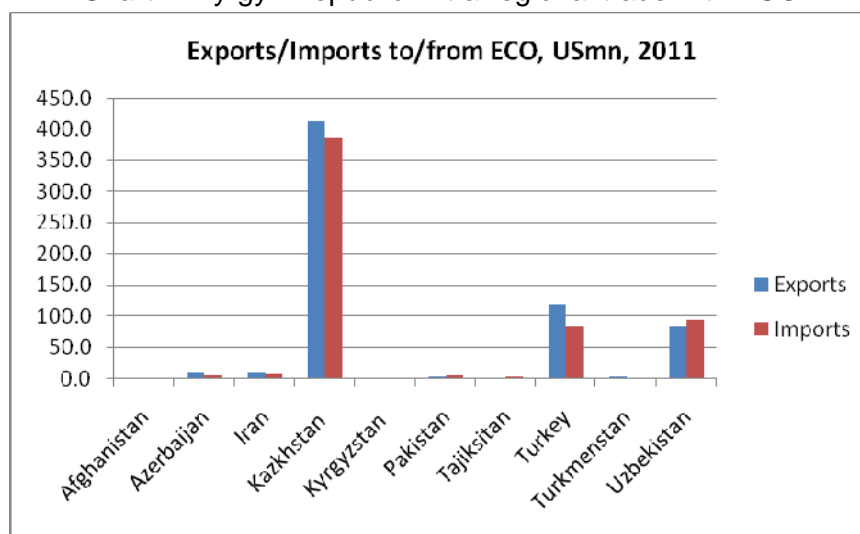
As with international technical assistance, growth of GDP returned back to normalcy by the end of 2011, reaching a healthy 5.7 percent rate. The volume of GDP stood at US\$ 5,944 million. The per capita real GDP increased by 18.6 percent marking US\$1,131, which for a small sized economy has recorded a significant milestone.

For the Kyrgyz Republic, a landlocked country, of critical importance is construction of roads for transportation of goods and services produced. As with the positive impact from the 765 kilometers road, rehabilitated in 2010, some road tracks, especially at junctures with neighboring countries, were temporarily closed during year 2011, for fear of social spill-over effects from the country onto the neighboring countries. Paradoxically, exports to the neighboring Uzbekistan and others have even further increased. Truly, intra-regional trade exchange is the proven driver of economic growth regardless of neither systemic market risks nor insecurity challenges. Notwithstanding the temporary hardships faced by the economy in 2010 and 2011, the overall length of asphalted roads reached 417.2 kilometers in 2011. Net ton kilometers carried by railways increased by 7.5 percent (798 million ton/km) and airline passengers carried (707,900) by 34.2 percent. In sum, transport inputs to the overall industrial output in 2011 marked the 8.2 percent of the total. Such inputs, compared to their level in 2010, increased by 15.8 percent in 2011.

The country's overall external trade stood at US\$6507.6 million in 2011. Exports reached US\$2246.4 million and imports US\$4261.2 million, increasing at 21.8 and 24.3 percent in 2011 against the 2010 volumes.

Exports to ECO countries reached US\$545.5 million, increasing at 44.5 percent rate compared to their 2010 level. Imports from ECO reached US\$641.2 million, increasing at 8.4 percent compared to 2010.

Chart 1. Kyrgyz Republic' Intra-regional trade with ECO



Source: Kyrgyz Republic-ECO NSO

By country exports of Kyrgyz Republic to ECO in 2011 were to Afghanistan 61.6%, Azerbaijan 16.9%, Iran (47.7%), Kazakhstan 37.2%, Pakistan 26.3%, Tajikistan 54.6%, Turkey 31.7%, Turkmenistan 37.6% and Uzbekistan 66.8%.

Imports of Kyrgyz Republic from ECO in 2011 were from Azerbaijan 62.4%, Iran 31.1%, Kazakhstan 6.2%, Pakistan (27.8%), Tajikistan (69%), Turkey 27.6%, Turkmenistan 54.9% and Uzbekistan (11.3%).

On energy, production of electricity, one of the country's main export commodity items, increased at significant 20.0 percent rate, reaching 15223 million kilowatt hours in 2011 compared to 2010. Exports of this trade item increased at 41.4 percent from 1636 million kilowatt hours in 2010 to 2795 million kilowatt hours in 2011. Domestic consumption of electricity accounts for 20.7 percent of total electricity production, only.

Production of crude petroleum was at 90 thousand kilometers in 2011 increasing by 8.0% compared to 2010. Production of 27 million cubic meters of natural gas increased by 15% in the reported year.

The share of agriculture in the structure of GDP reached 18.0 percent share, increasing at 2.7 percent rate compared to 2010. At the same time, agriculture inputs to the overall output of industrial production in 2011 increased at 2.3 percent rate compared to (- 2.6) percent in 2011. Production of the main agriculture item, cereals, remained at the same rate as was (1580.7 thousand tons) in 2010. Production of potato (second top item) reached 1379.2 thousand tons, the same level as in 2010. Wheat production decreased by 1.7%, raw cotton 26.7% and

vegetables 10.2%. Compared to the 2010 levels, cattle breeding increased by 2.9%, sheep 5.0%, goat 3.1%, and wool 1.8%.

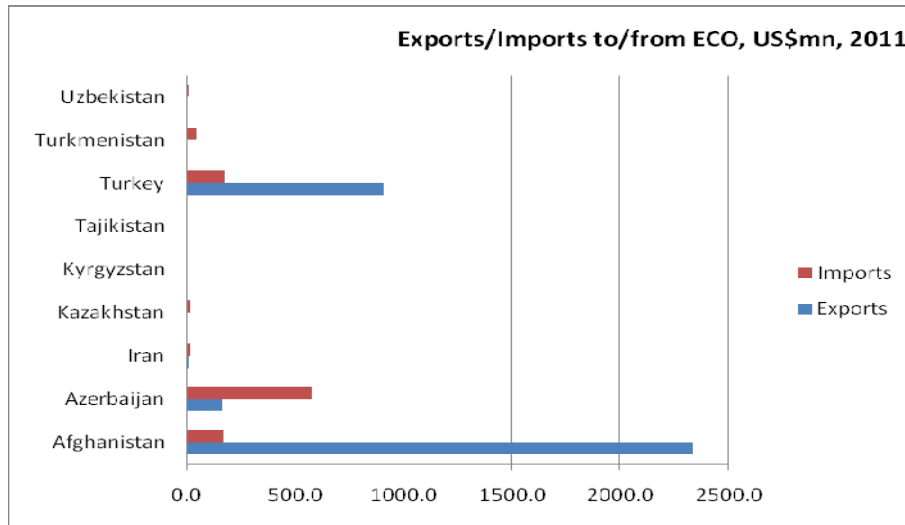
Pakistan

In 2011, the country was hit by natural disaster hazards. Recurring floods in 2010 and 2011 have impacted economic standing of the country by contraction of the growth of GDP at constant prices to 3.0 percent down from 3.4 percent in 2010. As an act of regional solidarity, the ECO provided emergency assistance to Pakistan. During 2011, due to electric power shortages industrial production has faced losses. Major infrastructure which ensured continuous functioning of businesses was damaged. Rehabilitation of water and energy pipelines as well as transport tracks in rural areas has been identified by the country as priorities. Added to this, security challenges entailing from social sensitivities inside the country have posed considerable threat to the economy's sound economic performance. As a result of these constraints, the current accounts contracted to 0.1 percent of GDP. Fiscal balance registered negative 6.6 percent of GDP at the cost of the external debt having been left mainly undisturbed even when faced with huge expenditures related to the need for mitigating the consequences of natural hazards in 2010 and in 2011. At the back of the contracted fiscal deficit, annual inflation picked up to 13.7 percent by the end of 2011. Unemployment remained relatively high at 5.6 percent due to a halt of industrial units because of electric power shortages.

Overall exports of Pakistan in 2011 reached US\$24,804 million, increasing by 22.0 percent. Imports made US\$40411, increasing by 14.1 percent compared to 2010.

Pakistan's exports to ECO have made US\$3418.1 million increasing at 32.9 percent compared to 2010. Imports from ECO have reached US\$992.5, increasing by 32.4 percent.

Chart: Pakistan's Intra-regional trade in 2011



Source: Pakistan-ECO NSO

Pakistan's exports to ECO countries, including Afghanistan increased at 32.7%, Azerbaijan (27.8%), Iran 54.3%, Kazakhstan (57.1%), Kyrgyz Republic (0.0%), Tajikistan (42.9%), Turkey 44.4%, Turkmenistan 63.2%, and Uzbekistan 20.0%.

Pakistan's imports from ECO countries, including Afghanistan increased at 19.0 %, Azerbaijan (68%), Iran (44.3%), Kazakhstan (44.3%), Kyrgyz Republic (100%), Tajikistan (168%), Turkey 10.2%, Turkmenistan 67.5%, and Uzbekistan 0.0%.

Improvement of energy generation, transmission lines, and energy efficiency have been identified by Pakistan's government as prime development tasks. It has been evident that the country rated energy thirst. Therefore, it has constantly sought for energy exchange opportunities in the inter-regional and international markets. The country's attempts in beneficially exchanging regional electricity and encouraging fossil fuel inflows into the country deserve economic reward.

Domestic generation of electricity in 2011 stood at 94653 million kilowatt hours, decreasing by 1.0 percent against the 2010 electric current flows. Consumption of this commodity item at 81.4 percent of total electricity production has further increased by 3.7% during 2011 against the 2010 levels.

Production of crude petroleum reached 3225 thousand tons increasing by 1.4 percent compared to their production levels in 2010. Consumption of this item domestically in 2011 was three times as much as its production.

Natural gas production reached 34954 million cubic meters, contracting by 3.07 percent versus its volumes in 2010. Domestic consumption of this energy resource accounted for 84.3% of total production.

Construction of roads and railways connectivity inside the country and creating transit links with neighboring economies was one other prime objective of the country's development in 2011, and also for coming years ahead. The transport component in the country's overall industrial output marked 12.5 percent of total. This mark had been by 14.5 percent lower in 2010. The total length of asphalted roads reached 261.5 thousand kilometers, increasing by 32% compared to their 2010 length. However, the railways remained at their 2010 length of 7791 kilometers. Net ton kilometers carried by railways contracted to 1757252 kilometers by 175 percent against their level in 2011.

Agriculture has ever been one of the main sectors of Pakistan's economy for the simple reason that it provided major employment to local workforce. In 2011, it employed 24.5 million work force who accounted to 42.4 percent of total. Reliance on agriculture in the country's economic performance reflected the physical share of this sector in the structure of GDP, which stood at 21.6 percent in 2011. Such 'weighty' share compared to that of Kazakhstan at 4.5%, as an example, Azerbaijan 5.5%, and Turkey 9.2% hints on Pakistan's near future priorities in decisive modernization of this sector through construction and upgradation of water pipelines, irrigation system, and development of agribusiness. In 2011, wheat production increased by 7.4% reaching 25214 thousand tons, however, production of cotton (5847 thousand tons), and rice (4823thousand tons) have declined by 12.7% and 42.7% compared to their 2010 volumes. Quantity of cattle (35568), sheep (28086), goats (61480) increased by 3.6%, 1.1%, and 2.6% in 2011 compared to their number in 2010.

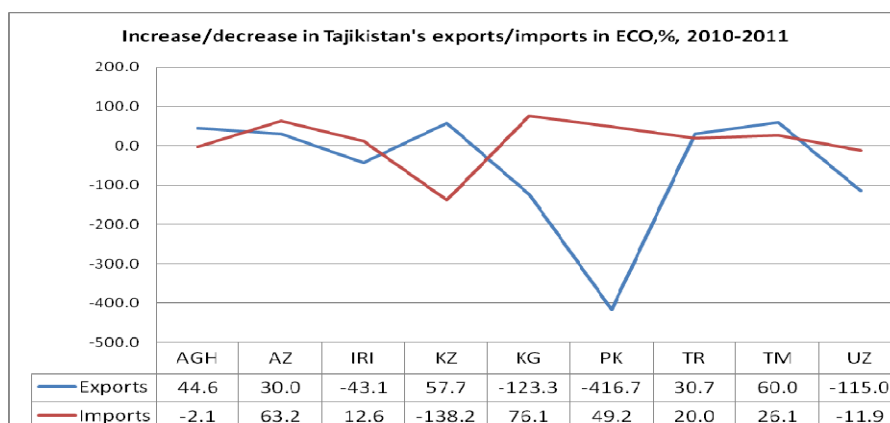
Tajikistan

The country's construction, agriculture, industries showed considerable growth during 2011. Still faced with the complexities of a small sized low income economy, the economy remained much dependent on inflows of workers' remittances. The services sector significantly contributed to the country's economic growth, reaching 9.3 percent of GDP at constant prices in 2011. This marked a considerable progress compared to a modest 6.5 percent growth rate in services in 2010, especially taking into account raw resource orientation of the economy. One of the favorable factors contributing to such upward growth was the (0.5) percent annual inflation rate in 2011. The real per capita income remained, however, low at US\$ 800. The volume of GDP at current prices reached US\$6,523 million increasing at 7.4 percent rate in 2011.

On trade, imports were at US\$1,257.3 million, increasing at 20.0 percent in 2011 being crowding out by exports of US\$3,206 million, marking 5.2 percent increase versus 2010 volumes. The country's external debt increased over 35.0 percent share of GDP, which for the low income developing country posed considerable alert.

Tajikistan's intra-regional trade with ECO reached US\$1,686 million, increasing in exports at 26.9 percent, and imports at 23.8 percent in 2011. Its export volumes in million USD went to Afghanistan at US\$94, Azerbaijan US\$2, Iran US\$42, Kazakhstan US\$47, Kyrgyz Republic US\$3, Pakistan US\$3, Turkey US\$544, Turkmenistan US\$3, and Uzbekistan US\$4. Tajikistan's import volumes in million USD from ECO were from Afghanistan at US\$39, Azerbaijan US\$22, Iran US\$162, Kazakhstan US\$123, Kyrgyz Republic US\$64, Pakistan US\$12, Turkey US\$75, Turkmenistan US\$113, and Uzbekistan US\$64.

Chart Tajikistan's Intra-regional trade with ECO



Source: Tajikistan-ECO NSO

On transport, completion of construction of the regional power transmission interconnection grid was one of the milestones in the economic performance of the country in 2011. Considerable improvement of agriculture production is expected to result from such milestone achievement in the immediate future. The transport component of GDP at market prices accounted to 14.2 percent, increasing against the 2010 levels by 35.6%.

The total net ton kilometers carried by railways in 2011 reached 868 million kilometers, increasing by 6.8 percent against the 2010 level. Traffic control succeeded by positive results - decreasing road traffic accidents by 10.4 percent in 2011 compared to their occurrence in 2010.

On energy, production of electricity, one of the country's main export commodity items, contracted by 1.2 percent reaching 16238 million kilowatt hours in 2011. Nevertheless, exports of this valuable export commodity increased by 5.8 percent in the reported year, reaching 190.9 million kilowatt hours. All export electric current flows were offered for regional intra-regional markets for beneficial exchange.

Crude petroleum production stood at 28 thousand metric tons, increasing at 4.5 percent rate compared to 2010 rate. Production of natural gas declined by 6.0 percent against 2010 volumes to 15 million cubic meters.

On agriculture, the share of GDP accounting to agriculture increased to 23.8 percent share, highest in the region. From its 2010 mark, it improved by 21.4 percent signifying the amount of economic activities and dynamism in this sector. Structural significance of agriculture in the country's economics adds to the fact that this sector has become home for 1,471 million work force employed during the reported year. As with the above specified contributing factors to the country's agriculture sector development, the overall permanent crop land area in 2011 increased by 2.3 percent, forestry and woodland by 6.6 percent. As a result of expansion of the production base for agricultural produce, the 7.9 percent increase in vegetable production and rise in quantity of cattle and sheep were marked at 100% and 6.6%. Consequently, meat production rose by 4.9 and wool by 3.3 percent. Production of rice, the economy's main export crop, however, contracted during 2011. It was mainly due to market saturation of international commodity warehouses by similar items, mainly coming from India, China, and Indonesia. To this end, exploring alternative market opportunities in the ECO intra-regional market for Tajikistan's agriculture exports items has become vitally important for this regional economy with the prospects of a sustainable market niche in the longer term prospects.

Turkey

The region has observed a spectacular growth of Turkey's economy in 2011. Its GDP at constant prices grew at 8.5 percent rate. The volume of GDP reached US\$772,298 million. Per capita GDP neared \$10,444, the highest in the region. Annual inflation rate fell by 32.4 percent to the 6.5 percent by the end of the reported period. Foreign direct investments soared by 43.2 percent. These marked the highest country level of FDI in the region recording US\$13,412 million in 2011. Portfolio investments increased by 26.8 percent compared to their level in 2010.

In 2011, the current accounts were at lower than expected mark, indicating the 10.0 percent deficit, which mainly owed to the trade deficit. However, reserve assets showed positive dynamics increasing manifold against the deficit in 2010. Such positive dynamics came at the back of the significant decrease in the external debt which normalized at 39.6 percent level, comfortable for the emerging industrializing economy.

Exports reached US\$134,969 million increasing at 15.6 percent against 2010 volumes. Imports marked US\$ 240,838 million increasing at 23.0 percent.

Turkey, a lead country on trade in the region, has boosted intra-regional trade in 2011. Exports to ECO countries reached US\$ 9,295 million, increasing at 18.0 percent compared to 2010. Imports from ECO countries were trading at US\$17,206 million, increasing at 32.9 percent.

Table: Turkey's intra-regional trade with ECO countries, 2011

Increase/decrease in Turkey's exports/imports in ECO, 2011		
	<i>% change in exports</i>	<i>% change in imports</i>
Afghanistan	5,9	-6,3
Azerbaijan	24,9	3,7
Iran	15,2	38,7
Kazakhstan	13,6	30,2
Kyrgyz Republic	28,5	40,7
Pakistan	-16,1	14,1
Tajikistan	16,7	12,5
Turkmenistan	23,7	1,6
Uzbekistan	20,3	8,4

Turkey-ECO NSO

On transport, the number of registered motor vehicles in Turkey in 2011 increased by 6 percent, reaching 16089528. Commercial vehicles and passenger cars increased by 5.8 and 7.0 percent marking 3948903 and 8113111 in number. The railways were at 9594 kilometers in length, and net ton kilometers carried by railways reached 11462 million tons kilometers in 2010, increasing against their 2009 levels by 5% and 20%, accordingly. Transport inputs to the overall industrial output of the country in 2011 stood at 14.0 percent.

On energy, in 2011, domestic consumption of energy resources has over three times exceeded their production in 2010. Production of crude petroleum reached 2544 thousand metric tons increasing at 12.0% against 2009 volumes. Production of natural gas remained at 2009 level of 682 million cubic meters. Electricity generation increased by 8% to 211208 million kilowatt hours in 2010.

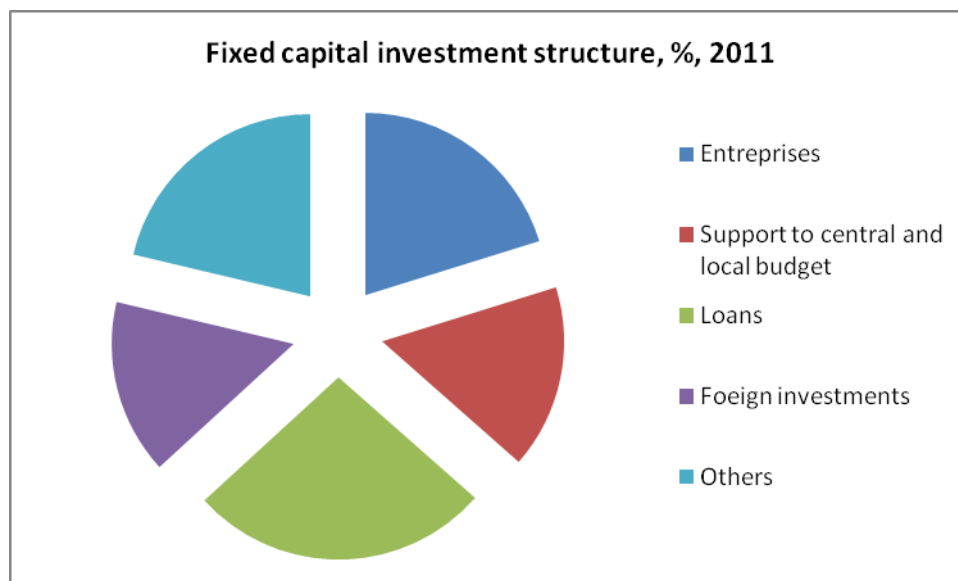
On agriculture, production of wheat increased at 9.7%, cereals 6.9%, raw cotton 16.6%, rice 4.4%. However, production of oil seeds fell by 74.4%, sugar beets 11.3%, vegetables 3.9%, pulses and tuber crops 9.2% and 8.2%, accordingly. The agriculture inputs to industrial output of the economy increased at 3.0 percent in 2011.

Turkmenistan

The balanced and stable growth rate of the economy over the past decade marked average 7.5 percent. In 2011, the country's real GDP increased at 14.7 percent rate, highest in the region. During the reported period, the US\$35,400 million investments supported construction of 1800 units of housing and industrial facilities in the economy. The rate of increase in the construction sector has been observed at 18.3 percent. The overall increase in the industrial production marked 42.9 percent increase. Services sector expanded at 21.8 percent.

One of the distinctive features of Turkmenistan's development in 2011 was huge investment in real sector economy. The 38.1 percent increase in this area was significant. By structure, these investments went to support fixed assets of enterprises and organizations 20.2%, central and local budgets 16.3%, loans 26.7%, foreign investments 15.5%, others 21.3%.

Chart: Turkmenistan's fixed capital investment structure (%) in 2011



Turkmenistan-ECO NSO

On trade, Turkmenistan's exports reached US\$28,111 million and imports US\$16,751 million. These marked 48.7 and 47.4 percent increase compared to 2010. In intra-regional trade with ECO countries, exports went to Turkey at US\$357 million, Iran US\$205.7 million, and Kazakhstan US\$193.7 million. Imports came

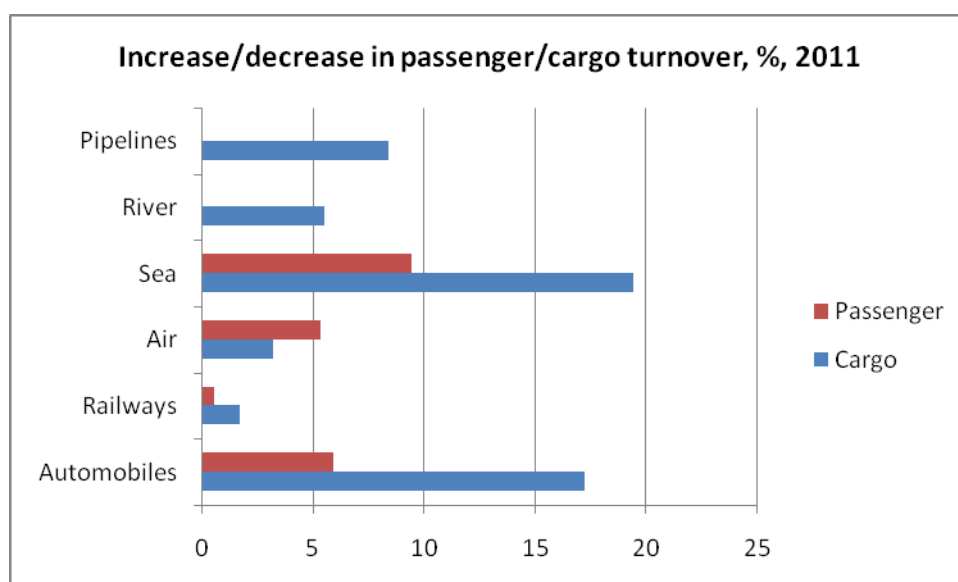
mainly from Turkey US\$1,643 million, Iran US\$302.7 million, and Uzbekistan US\$150.1 million.

On transport, the total contribution of agricultural production to the overall industrial output in 2011 accounted to 6.5 percent. Compared to 2010, the physical volume of this component, measured at current market prices, increased by 88.3 percent.

Construction of the railway link along the North-South route has marked its completion stage in 2011. As the next step to this, the country has finalized an additional agreement with China on increasing natural gas supplies to the PRC. Net ton kilometers carried by railways increased by 3.1 percent compared to 2010. The same indicator but for river transportation, increased at 28.1%, sea 33.0%, air 86.1%, automobile transport 8.0%, by pipelines at 8.0%.

Net passengers carried by railways increased at 0.2%, sea vessels 10.2%, airlines 2.3%, automobiles 4.0%.

Chart Turkmenistan's Turnover in Passenger/Cargo, % Change, 2011



Turkmenistan-ECO NSO

On energy, production of electricity increased at 6.8% against the 2010 volumes given that domestic consumption of this commodity exceeded its production. Production of crude petroleum and natural gas, main export items of the country, increased at 7.0% and 13.8%, accordingly. At the background of the increasing production rates of the main exports items, the country has been finalizing pre-project works for construction of the Turkmenistan-Afghanistan-Pakistan-India pipeline.

On agriculture, the inputs of agriculture production to the overall industrial output reached 14.3 percent. Such inputs in 2010 were by 15.1 percent lower. One of the significant achievements in agriculture has ever been stable and balanced development in all its subsectors with special focus on fisheries which increased at 48.4%, textiles 9.6%. Growth dynamics in other sub-sectors of agriculture marked the increase rates between 4% to 12%, on average. During 2011, wheat production yielded 1,200,000 tons.

Uzbekistan

In 2011, Uzbekistan's economic growth was at spectacular 8.3 percent rate of GDP. Over the past period, the country's strong economic performance was characterized by sustainable, inclusive, and balanced growth supported by high rates of employment at the background of very modest unemployment at 2.0 percent. As with positive macroeconomic environment during 2011, the country's economic performance has been rated sustainable. Even during worst times of global economic and financial crises, the economy has steered its way forward whilst avoiding sudden downturns.

Strong industrialization of real sector economy commensurate to gradual private sector mobilization at the back of the considerable strengthening of public sector institutions have ensured the economy a sustainable development model, worth following by other regional countries in ECO. The country's overall industrial production increased at 6.3 percent, agricultural production 6.6 percent, investments 7.9 percent, and construction works 8.5 percent during the reported period. With sufficient amount of gold in vaults and huge energy resources, the excess of these valuable commodity items was traded at external markets given high world prices for gold and fossil fuels, refilling the current accounts at 8.1 percent surplus. For the same reason (high international prices for food and fossil fuels) the annual consumer price index rose to 7.3 percent in 2011.

All the above indicated positive macroeconomic factors contributed to the country's upward economic development with modest external debt which stood at 15.9 percent of GDP.

On trade, exports soared at 15.4 percent increase rate and imports traded at 12.6 percent increase rate compared to the previous year. In monetary value, trade volumes reached US\$15,027 million in exports, and US\$10,509 million in imports. Of the overall trade, intra-regional exports to ECO countries were mainly to Turkey at US\$854.4 million, Kazakhstan US\$515.2 million, Kyrgyz Republic US\$181.1 million. Imports to these countries were at US\$390.2, US\$552.4 million, and US\$317.7 million, accordingly.

On transport, the total of 660 kilometer rail road track was upgraded in the territory of Uzbekistan during 2011. On the bilateral front, Uzbekistan has built a 75 kilometer rail link in the territory of Afghanistan to connect the brotherly transitional country to its southern borders. The net kilometers carried by railways increased by 8.7 percent, indicating upward dynamics in transportation of goods and services. The overall turnover of transportation of cargoes increased by 9.0 percent compared to the rate in 2010.

Transport inputs to the overall industrial production reached 11.7 percent share. Owing to the above indicated activities in this area, such inputs in 2010 were by 21.3 percent lower compared to their levels in 2010.

On energy, production of electricity increased at 1.3 percent to 52690 million kilowatt hours compared to volumes in 2010. Uzbekistan has built power transmission lines in Afghanistan to enable continuous supplies of electricity to the brotherly country given that its own domestic electricity production reached full 52690 million kilowatt hours in 2011. Such cooperation has not only fortified Uzbekistan's own stability but ensured greater regional interdependence and interconnectedness. For another, solidarity demonstrated by Uzbekistan for the benefit of the Afghan people has served an example of good economic governance and integration within the ECO region.

Natural gas was produced at 61 billion cubic meters volume in 2011. Production of this item was increasing at 2.0 percent over the past 5-year period.

On agriculture, the share of this sector in the structure of GDP accounted for 19.1 percent. This sector provided huge employment benefits for the people of the country.

Part III. Development in ECO Main Activity Areas: Programmes and Projects

The main activity areas of the organization, namely trade, transport, energy, agriculture, have been prioritized by ECO stakeholders in the 11th Summit meeting of Heads/Governments of the Member States. During the reported year 2011, progress in these activity areas has been as follows:

Trade

The main priority in this activity area has been implementation of the **ECO Trade Agreement** (ECOTA), a preferential trade agreement providing for an 8-year implementation period to bring down tariffs on at least 80% of goods traded among Member States to a maximum of 15%. The groundwork for establishment of a **Free Trade Area in the ECO** is being prepared. Negotiations for a comprehensive ECO Trade Facilitation Agreement will start shortly.

To ensure implementation arrangements for the ECOTA, a regional project on **Capacity Building on Standards, Metrology, Testing, and Quality (SMTQ)** on trade was launched in 2007 as technical assistance from the United Nations Industrial Organization (UNIDO). The first two phases of ECO-UNIDO Project on Trade Capacity Building of the ECO Member States were completed during 2007-2009. The 1st phase has helped in enhancing the trade capacity of the Member States in Standards, Metrology, Testing and Quality (SMTQ), particularly Afghanistan, Azerbaijan and Central Asian States. The 2nd phase gave support to Member States to enter into a Regional Mutual Recognition Agreement (MRA) in Standardization and preparation for Phase-III. Within the framework of cooperation between ECO and UNIDO, it has been suggested to prepare a three-year project proposal to actively engage regional standardization institutions and international organizations. UNIDO's support is valuable in building partnership with international standards measurement and accreditation bodies. As per the Action Plan of UNIDO for ECO Projects (2012), the budget for the 3rd Phase of the Trade Capacity Building Project is estimated to be US\$ 463.000.

Another regional project - **Expanding Intra-regional Trade in ECO region** – has focused on the annual preparations of Business Forums as well as the Buyers-Sellers Meetings on trade. In 2007, the Second Business Forum on Construction Material was held in October in Turkey. This was followed by the third one, held in July 2008 in Islamabad, and the fourth forum is likely to be held in 2013. These activities have been so designed that exporters/exporters could finalize trade deals, promote their goods and services, and share expertise/experiences/knowledge on intra-regional trade in ECO. To encourage communication amongst exporters/importers through the existing trade & investment promotion agencies, the ECO has set up a web-generated *e-trade network* at Secretariat in February 2010, and the network was further upgraded during 2011. ECO plans to create a data base for the region's importers and exporters.

With the aim to define tradable export/import items of the ECO countries for the intra-regional trade exchange in the region, the project - **Study on Trading Patterns in ECO countries** was completed in 2013, and the Member States received recommendations to start actual trade operations on those trading items that have been identified by the Study within the ECOTA framework. The 2nd Phase of the Study will start in 2013.

The 2nd Meeting of the **ECO Heads of Trade Promotion Organizations (TPOs)** was held on May 2-3 2012 in Baku, Azerbaijan. The Meeting acknowledged the efforts of ECO in establishing important forums, launching projects and organizing events in order to promote regional trade. The Meeting deliberated on the need to accelerate the process of trade liberalization by taking special measures to achieve objectives of integrating the ECO region in the world trading system. The meeting also highlighted importance of trade financing and implementation of an integrated regional trade promotion programme.

Transport

Economic effect from the implementation of the **regional project Transport and Transit Framework Agreement (TTFA)** has had a favorable impact on the en-route countries in the ECO region. The project was set up by combining international efforts of ECO, IDB, ESCAP, and UNECE. It aimed the provision of economic benefits for diverse users of the regional roads and railway tracks. It has also pursued the easing of cross border procedures on customs, [Visa](#) and insurance. In specific terms, feasibility studies on the railway routes along Islamabad-Tehran-Istanbul-Almaty-Bandar Abbas had previously been started. The [Container](#) train from Islamabad to Istanbul through Tehran was launched in 2010. On transit, the Kazakhstan-Turkmenistan-Afghanistan-Iran route has also been initiated.

On automobile roads, the ECO established effective partnership with International Railway Union (IRU) through the project - **ECO Silk Road Truck Caravan and ECO regular run of the Trucks**, which started in September 2010 and June 2011. This was a test run of the ten heavy trucks and testing regular run of the trucks from ECO countries with the objective to identify advantages as well as constraints on the road track with the future perspective to regularize the tested road track. Because the test run was launched along the ancient Silk Road, it was meant to bring economic benefits for a wide regional user. The projects arrangements were completed in October 2011 and have been expected to proceed up to September 2012. Consolidation of the expected economic benefits for the region is in process.

Energy

The benefit for the regional community from the implementation of the initiatives and proposals in the energy sector of the ECO region has been felt over the past through dynamic consultations, exchange of expert view, and knowledge sharing on the process of the development of the feasibility study - **Interconnection of Electric Power Systems in the ECO region**. Interconnectedness amongst regional producers and costumers of electric power that stepped in as the parties to this joint endeavor between the Islamic Development Bank and the ECO, to enable the Member States of common membership to benefit from the greater interconnectedness of the regional electric power grid. During 2011, this regional initiative was modified into the new mode, **trading in energy**, which was consulted and agreed on by the Ministerial Meeting on Energy on October 1, 2010, in Dushanbe, Tajikistan. During that meeting the ECO Vision-2015 was noted in terms of the need specified in it for: “(i) establishing interconnection of electric power systems by 2015 in the ECO region based on the outcome of necessary studies in this field to achieve better patterns of production, exchange and trade of electricity (ii) facilitating development of oil and gas pipeline networks in the region, to meet the entire region's energy requirements; and (iii) increasing the outlets for access to international markets.” While concentrating on conventional energy challenges, the ECO has taken decisive actions on handling the environmental component of energy issues by reducing the level of hydrocarbon emissions into the atmosphere. To that effect, the project - **Preparation of a regional program for implementation of the Framework Plan of Action on Environment Cooperation and Global Warming for ECO Member States (2011-2015) implementation of Plan of Action on environment (2011-2015)** was initiated. Parallel in time, the feasibility study **Development and Harmonization of Environmental Standards in ECO Region** was also initiated in 2011 with the aim to formulate environmental regulations and standards for pre-determined quantitative levels of concentrations of pollutants in water and soil, for waste and chemicals management in the Member States.



Agriculture

The **Regional Programme on Food Security in the ECO region** (RPFS) had been initiated in 2008 with support of FAO, ICARDA, World Bank, IDB, UNIDO, ECO-TDB, TICA, and others. The programme with the estimated value of US\$56.3 million aims at implementing the 10 project components' regional effort that would ensure economic benefits, through secure and safe food, to the people of the region.



During 2011, the component of the programme which focuses the establishment of the regional coordination center (RCC) for the purposes of speedy implementation of the programme was completed and the RCC has been established in Ankara, Turkey. Economic benefits from the implementation of this component have been estimated at \$1.8 million. Concurrent to the ongoing implementation of the RPFS, other projects in the area of agriculture have been under speedy implementation.



While definitive progress has been achieved in the above reflected priority activity areas of the ECO, the organization has adopted important decisions regarding the human resources development dimension in the combined regional effort. Facilitation of the economic development progress through improvements in education and health has been seen critical for the regional countries. For the details, the reader may be referred to the **ECO Regional Report on Health Related Millennium Development Goals** which was completed in 2011 and available on ECO web site.

Both, the prioritized and the facilitating areas, have been envisaged by the 20th Council of Ministers Meeting (December 22-23, 2010, Istanbul, Turkey) to be

supported by the comprehensive research and statistics data by implementing the **ECO Joint Economic Research Programme**. With such institutional facilitation to the overall progress in the above reflected priority activity areas of the organization, the expectations of beneficiaries in the ECO region are for the sustained integrity, cross sector cohesion, and development effectiveness in the resulting impact from the ECO projects and programmes.

Part IV. ECO Regional Economic Development Outlook

The macroeconomic outlook for 2012 confirms that the region's prospects for the near future period are for further upward economic growth. The latter will rise even further to an estimated 7.2 percent rate of real GDP in 2012. In spite of the finely mixed results of economic performance of some regional countries in 2011, including Azerbaijan, which in the recent past succeeded in achieving world's highest GDP growth rate at 34.0 percent rate, but slowed down in 2011, and also, of some other economies that had to expense a fairly large amount of effort for mitigating higher than usual inflation rates and external debt, primarily linked to previous financial borrowings from international markets, the overall outlook for 2012 is encouraging. Such estimate entails from steady performance of the economies with upward growth rates, including Turkmenistan, Uzbekistan, and Kazakhstan that have achieved high 14.7, 8.3, and 7.5 percent of GDP growth in 2011, availing the positive stabilization impact of their national welfare funds.

As with development challenges, still harsh in lower level income economies, including Tajikistan, Kyrgyz Republic, and Afghanistan, these countries have gained the encouraging growth rates at 9.3 percent and 5.7 percent in 2011, which places them at a comfortably leveled niche in their near future upward economic prospects. Having marked this, it needs specifying that lower income countries are yet vulnerable to external systemic risks because of their fragile manufacturing base which is dependent, in most part, on demand-supply effects of regional markets. In this regard, the outlook for greater economic interdependence among ECO countries should be strong, encouraging for greater economic integration, to sustain positive growth rates of lower income economies even further toward higher mid-and-long term prospects for attaining the 7.2 percent rate in 2012, on regional average, to sustain the previously gained economic achievements.

In the environment of strong trends tuned for regionalism of economic activities in world's various regions and sub-regions, the ECO looked out to forging effective inter-regional partnerships in 2011. In this respect, its preliminary steps in creating working interaction with EC, ASEAN, D-8, and other regional UN agencies and institutions, have been visible.

Available data, especially of World Bank, confirms that growth in ASEAN countries will boost throughout 2012, and their prospects for 2012 are 5.9% GDP growth rate, on average.

Prospects for real sector growth in EU economies are less encouraging rather for slowing down at the cost of countercyclical trends that have entailed from recent global economic and financial crises.

In the light of the above shown prospects of the inter-regional environment of ECO, the prospected growth in the region is likely to be at sustainable at 7.2 percent of regional GDP growth in 2012, *ceteris paribus*, that regional countries would avoid sudden natural disaster and security hazards.

The reasons behind the prospects of sustainable growth in the ECO region for 2012 stem from the contributing factors which led to the increase in intra-regional trade in 2011 which volumes have improved at 29.6 percent rate compared to their level in 2010. Added to this, the contributing factors to the increase in the input volumes of the transport component (including revenues from transport services) in the structure of the overall industrial output in 2011 and increase in agriculture production as well as to the effectiveness of the exchange in energy surpluses among individual countries of the region are expected to further add to the growth of real GDP in 2012. Above all, considerable improvements in human resources development indicators of the region will facilitate creation of conducive environment for improving the living standards of the regional community. Based on the above described contributing factors to real sector economy growth of the region in 2012, the estimates of the regional targets in the priority areas of the ECO are likely to be as follows:

Table:

Activity Areas	2011	2012 (estimates)
Trade (Intra-regional trade, % of total)	7.0	7.2
Transport*	10.5	11.0
Agriculture*	13.0	13.3
Energy*	4.0	4.2

* % change (increase/decrease) in transport inputs to the overall industrial production

Part V. Conclusions

The sustainable economic development in the ECO region at 6.8 percent in 2011 has been supported by the dynamism of project and programmes operations which marked 13.8 percent completion rate. These operations have been implemented in the region under careful coordination of the Member States, including such project coordinating countries as Turkey, Iran, Pakistan, Kazakhstan, and Azerbaijan. Stakeholder participation and commitments of the governments to the attainment of progressive regional economic development have ensured sustainability and long-term impact from project operations through the decisions adopted by the 21st Regional Planning Council Meeting held on 17-19 May 2011, in Tehran, and 11th Summit of Heads of State/Governments of the Member States on 23 December 2010, preceded by the 19th Council of Ministers Meeting held on 21- 22 December 2010, in Istanbul. The scope and content of project and programmes operations in the region have primarily been for the benefit of the beneficiaries– individual people and public-private sector entities.

Sources:

Key Statistical Indicators of ECO

Country Reports of the Member States

Official Web-generated Database of the Member States

United Nations Common Database <http://www.unstat.un.org/unsd/cdb>

World Bank Country Reports, Public information Notes

SESRIC Statistical Year Book

SESRIC Online Database <http://www.sesric.org>

UN FAO Online Database www.fao.org and <http://faostat.fao.org>

Report of the 20th Council of Ministers Meeting

Report of the 19th Council of Minister Meeting

Reports of the 18th and 19th Council of Ministers Meetings

Declaration of the 11th Summit of ECO Heads of Heads of State/Governments

Report of the 21st ECO Regional Planning Council

Report of the 21st ECO Regional Council

ECO Regional Report on Health Related Millennium Development Goals

Study on Trading Patterns in ECO countries

Comparative Study on Linkages between Social Demographics and Energy Consumption in ECO countries

Prospects and Achievements of ECO Development in 1998-2008

ECO Economic Journal

SESRIC Journal of Economic Cooperation and Development

Afghanistan Statistical Year Book 2010, 2011

Azerbaijan Statistical Year Book 2010, 2011

Ministry of Finance of Government of Pakistan

Ministry of Economic Development of Turkey Official Database www.spo.gov.tr

Abbreviations and Acronyms

The abbreviations used in this report indicate the following definitions: y/y – year-on-year; e.o.p. – end of the period, ncu – national currency unit, mn - million, bn – billion, trn – trillion, \$ - US dollar, a. – annual, ave - average, % - percent, u – unemployment, r.p.i. – real per capita income, series – 2010-10, period - 2000-2010, ex. – for example, (...) data exists but unavailable, (.) data is embargoed, ('e') estimate, (_) zero, (0) below 0,05.

The following assumption has been adopted for the present report that national economic indicators of the member states were revised by them in 2009-2011 in reassessment of the world's post financial crises effects on economies and in transiting to the reviewed computation scheme of the internationally standardized national accounting systems. Therefore, in instances of disparity between indicators of the present report and those in other ECO publications, the most recent should be authentic.

Another assumption has been adopted to focus on selected economic indicators which present the core interests of the member states and which entail from their statements posted at various high level fora, including COM and planning/budgeting meetings of the Regional Planning Council of ECO. Therefore, a series of comparable indicators has been limited to priority areas and their range has been narrowed down.

For ensuring the user friendly approach in preparing the report, its format and presentation style have been so adjusted - to meet diverse apprehension levels of a wide regional user.

The following conventions have been used in the report in their following definitions: ellipsis points (...) indicate “not available”, 0 or 0.0 indicate “zero” or “negligible”, a dash (-) between years or months (ex.2010-2011 or September-December) indicate the years or months covered, including the beginning and ending years or months, a dash or virgule (/) (,) between years or months (ex. 2010/11) indicate a fiscal or financial year, in the same manner as does abbreviation “FY2011”, “billion” means a thousand millions, “trillion” means a thousand billions, “basis points” refer to hundredths of 1 percentage point, (ex. 25 basis points are equivalent to ¼ of 1 percentage point), the term real economy refers to a real GDP, “annual inflation” refers to the annual consumer price index, “per capita” refers to real GDP per capita, “by end year” refer to the end-of-the-year annual rate, “i.r.t” refers to intra-regional trade, “ex.t.” refers to external trade, “dynamics” refers to a percentage change in the reported period compared to the preceding, “on average” refers to weighted average indicators, “current accounts” refer to the current account balance, “local businesses” refer to legal economic entities located in a given individual country, codification of the ECO member states refer to AFG-Afghanistan, AZ-Azerbaijan, IRI-Iran, KZ-Kazakhstan, KG-Kyrgyz Republic, PK-Pakistan, TJ-Tajikistan, TR-Turkey, TM-Turkmenistan, UZ-Uzbekistan, “the member states” refer to the countries of common membership in ECO, the abbreviations used for reference to international and regional organizations and for national currency units of the member states are commensurate with those in the United Nations System.
