ECONOMIC COOPERATION ORGANIZATION

ECO Annual Economic Report-2012

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FOREWORD

The present report provides a brief macroeconomic analysis of the economic development in the ECO region in 2012. Progress in ECO has been reflected through the prism of stakeholders' guidelines for the reference year. Also, the readership is offered information on selected macroeconomic milestones in 2002. As a regional economic organization, in 2012, ECO has marked two decades long history which stepped up regional economic integration since 1992.

Global recovering economic environment has shaped economic dynamics in the region in 2012. The regional economies have encountered a basket of systemic risks in their gradual exiting from the post peak crises driven global economic distress. On policies, low interest rates and liquidity injections have safeguarded regional economies from potential cyclical downturns. Yet, upper levels of external debt, in some developed regional economies, largely caused by external borrowing from global financial markets, have featured slow pace of their economic recovery. Nevertheless, an inherent strength of regional economies, accumulated over the pre-crises years, and resistance built up in post-peak crises period, have translated into a strong backbone. The latter helped navigate the region towards a near future irreversible economic recovery.

Against this background, it was the global economic crisis that helped reshape regional economic environment in its preparedness for potential multifaceted effects of globalization. Lower but more sustainable growth paths have emerged as new economic realities. These profess sustainability, balance, and shared growth. Systemic risks have mainly been assessed and priced, not to underscore unforeseen consequences. Regulatory oversight and policy supervision of regional economies have been revisited and, eventually, strengthened in the reported period.

World's diverse economic view on the state of global economy in 2012 has been varied. Some deemed that the global economic/financial crises, originated in 2008 still persist, others saluted its end. Respecting multiple views, the ECO has pursued its priorities on: resource efficiency, knowledge-based economic productivity, industrial innovation. Improvement of competitiveness through cost effective planning have stepped in as region's major components of 'green' and 'inclusive' economic growth for the near- and- medium term perspectives.

Along the similar lines, the guidelines of high level policy makers for 2012 have geared the region towards knowledge based economy. The latter phenomenon was seen as a true gateway to achieving tangible economic and social gains for the vast regional community. Given the changing global economic order, world's economies have been looking out for advantages within varied regional economic groupings. These, among others, included the EU, NAFTA, MENA, CIS, ASEAN, APEC, ECO, SAARC, etc.

Regionalism has become a domain of the global economic infrastructure where small economies survived a market driven and thus rigid economic competitiveness. The ECO, being a bridge between national economic interests and global priorities, has provided a unique platform for its members to address challenges of globalization. Following the outcomes of the 23rd ECO Regional Planning Council held in May 2012, one of the objectives for 2012 and onwards has been the improvement of planning - to obtain greater 'efficiency', 'feasibility' and 'dynamism' of economic activities in ECO.

The two decades of economic integration amongst member economies have built a sustainable operational platform for the realization of goals and objectives of the region, as envisaged in the Treaty of Izmir, the main guideline of ECO. The achievements pertaining to economic sector development have particularly been strong in transport, trade, and energy. These have clearly been assessed by ministerial meetings, namely, 3rd ECO Interior Ministers Meeting, 4th Ministerial Meeting on Commerce/Foreign Trade, 4th Ministerial Meeting on Environment, 8th Ministerial Meeting on Transport and Communications. The meetings resulted in action-oriented decisions that targeted further increase of regionally beneficial economic interdependence within ECO. The sustainable nature of the economic development in ECO has been achieved through a balanced growth in priority sector areas.

The true intention of stakeholders is to ensure that all people of the region have their share in regional growth. A better quality of life, entailing from efficient use of vast natural resources and human potential available in the region constitute such share. For this, a concerted action is required in the following key areas: economic growth and welfare/ transport infrastructure for trade/ cost-effective utilization of natural resources and energy/ and, intra-regional trade for social development. As with the above outlook ahead, the increasing consumer demand in efficient energy development, transport infrastructure, intra-regional trade and food security will remain major drivers of prospective economic growth in ECO economies. Most important is the development of transport infrastructure in boosting free trade exchange inside the region and far beyond it. With expected benefits for the people of the region from such integrated and knowledge driven economic growth, confidence and commitment of the Member States, the economic outlook for the medium and long term perspective remains high.

Dr. Shamil Aleskerov
Secretary General

Acknowledgments

The present report has not reflected human development and social demographics as pertinent to the regional development for the reason that the analytical report on ECO specific MDGs was made available to the Member States in 2011. The dynamism on social demographics had, in addition, been reflected a special ECO report focusing population and labor in 2012.

The information and economic data in the present document has been provided by the Member States. Special thanks in this regard are to the Committee Members of the PSCER- ECO Permanent Steering Committee on economic research for their generous inputs. Statistical data, collected by ECO Statistical Network from national statistical offices has been instrumental for timely and reliable statistics. Frequency in publishing the present document has complied with set requirements set for an annual report in the editorial policy, 1.8 months, upon expiry of a reference year.

In preparing the report, economic policy relevant information has been derived from Main Documents of ECO and concluding recommendations of Council of Ministers Meeting (COM), Summits and ECO Regional Planning Council (RPC) as relevant for the reference year.

The structure of the report followed strategic priorities of ECO - main activity areas such as transport, trade, and energy. The agriculture-related activities have not found reflection in the report since readership feed-backed its preference in favor of food security. The data on food security will have been available by mid-2014. Regional agriculture statistics is currently being strengthened via information software systems in the member states and subsequent report will be food security specific.

During 2012, the strategic focus of the ECO on the prospects of its regional development in the short, medium, and long term have been shown in compliance with member states' country strategy programs. In the wake of functioning of the ECO Economic Research Center to carry out economic forecasting, the forecasts in the present report have been derived from the member states' country reports, analytical papers, reviews, and country statements. These have been considered at meetings of the ECO Permanent Steering Committee on Economic Research during 2012.

Evidence based findings on economic performance of the region have been referenced in the report wherever relevant. These included economic research projects: "Comparative Study on the Relationship b/w Energy Consumption and Main Demographic and Economic Indicators in ECO Member States" prepared by Iran, "Perspectives of Intra-regional Trade in ECO Countries" by Kazakhstan, "Trading Patterns in the ECO region by Pakistan", "Analytical Report on MDGs Goals 4/7" as well as academic papers, abstracts, thesis reviews presented by Member States at 1st Baku Forum of ECO Member States' Economic *Think-Tanks* in September 2012. In this regard, genuine thanks are being conveyed to the ECO Editorial Board, for clearing the papers against compliance to editorial policies, globally pertinent economic research standards, and economic analyses norms.

The efforts exerted by Staff of the Secretariat may not be underestimated as the regional edition has been rendered every support in compiling, display, and dissemination.

Conventions, data, and assumptions

The present report has confined to the specific features of the regional performance. This has entailed from stakeholder preferences. Therefore, the activity areas as referred in the report are as follows: ‘Trade’ for the activities carried out by Trade and Investment Department, ‘Transport’ by Transport and Communications Department, ‘Energy’ by Energy, Minerals, and Environment Department.

The value of the economic impact of the projects, fulfilled in 2012 or in the stage of their implementation in near future perspective by relevant departments, has skipped reflection in the report. This was due to the project impact ratios that have not been policy-confirmed yet. Therefore, the assumption for the purposes of this report has been such that the impact area of ECO led economic activities in the region is formed out of economic spaces of the ten Member States.

For easy reading, the ECO Member States have been referred in the report as follows: Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan. The countries have also been termed as “ECO”, “the region”, “member economies”, “regional economies”, “the Organization“, “member states” and “stakeholders”. The term “regional” in the context of the present report stands for ECO and its ten members.

World’s other regional organizations, including MENA, CIS, CEE, EU, ASEAN, and SAARC have been referred in the report mainly for their growth indicators. Legally binding framework arrangements on information & data sharing were concluded by ECO with most of these organizations. In addition, the ECO’ status of the UN Observer enables it to share data & information with any UN affiliated body. The data of WTO, UNSD, ESCAP, SESRIC, WB, and IMF has also been studied in preparation of the report.

In view of above conditions, the commonly shared and practiced data & conventions have also been true for the present report. In case of any divergence from the common data & conventions, explanatory notes have been provided in the report wherever appropriate.

Paying a due tribute to the twentieth anniversary of the ECO as world’s regional economic organization, a concluding chapter of the report ensured a ‘binary’ snapshot reflection of major economic highlights of the Organization in 2002 and in 2012, a decade after its expansion into a ten member economic entity.

The format and structure of the report complies with historical approach applied by ECO in its previous annual economic reports. The 33 graphic images, including 17 charts and 16 tables reflect secondary economic and statistical data from country reports as well as ECO Statistical Network, ECO Trade and Development Bank, international organizations. There has no reference been made in the report to the tables assigned to each member economy in view that in-tabled data and information may be availed by readers upon their individual preferences and needs.

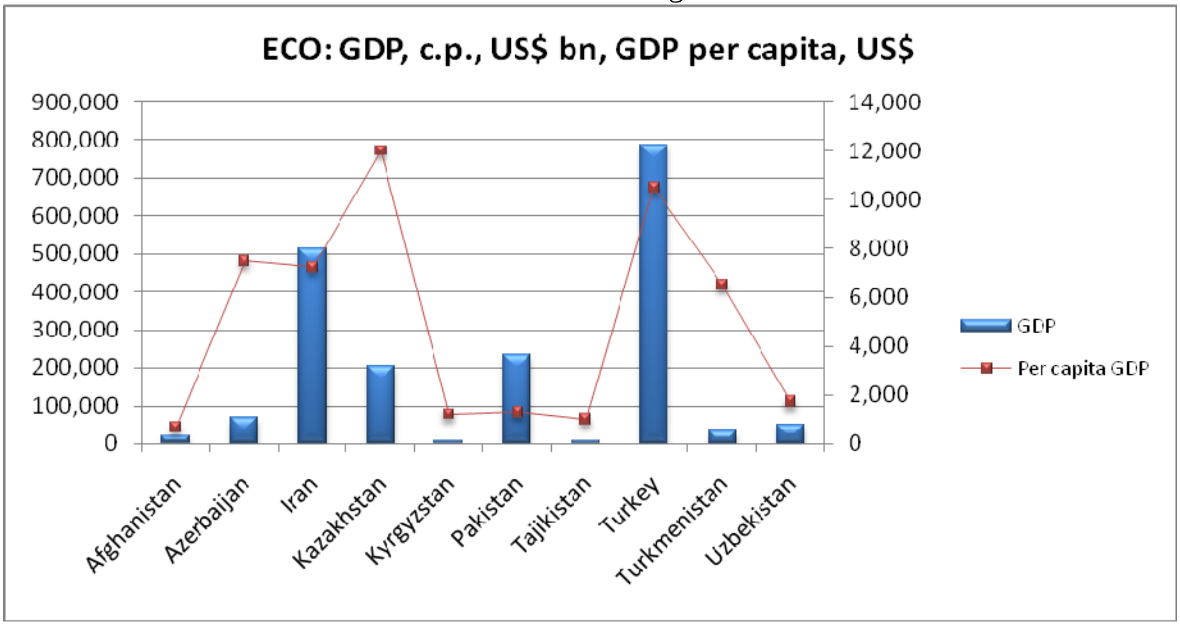
The Report will be provided to the Member States as per distribution lists of the Member States. Following international ‘paperless’ principles on print, the publication will be available on ECO web. Inquiries relating to the report may be forwarded to the Director for Projects, Economic Research, and Statistics Mrs. Bayan Adilbekova at the following electronic address: Director.PERS@ecosecretariat.org

Part I. Brief Macroeconomic Overview of the ECO region in 2012

Growth: gradual economic recovery in the ECO region primarily owed to strenuous efforts exerted by national governments of the member states over the reported period. In spite that growth in the region's GDP has contracted to 2.0 percent, as a reflection of global economic sluggishness, performance of individual countries has shown a varied strength. Thus, the region's GDP at current prices marked US$ 1.9 trillion by end 2012. Turkey, Iran, Pakistan, and Kazakhstan have mainly contributed to growth in physical volume of GDP (pl. see chart 1). The regional GDP per capita reached US$ 4,960 on average. These factors enabled a positive economic outlook for 2014 with forecasts of further growth to US$2 trillion GDP, to expectedly mark a breakthrough in the history of the economic development of the Organization.

In the varied performance of regional countries, smaller sized economies have stood firm on their path to economic recovery. Turkmenistan grew at 11.1 percent of GDP, Tajikistan 7.5 percent, and Uzbekistan 8.2 percent. Such high growth was due to surge in public investments, strong consumer demand from individual households, external demand for hydrocarbons, and increasing workers remittances. Growth in Pakistan has also risen from 3.0 in 2011 to 3.7 in 2012 whilst key macroeconomic indicators have remained moderate, given that the economy faced emergency hazards - severe floods during 2010 and 2011 of which effects were felt in 2012.

Chart 1: ECO Region



Sources: ECO Statistical Network

Other regional economies have faced a slowdown in growth in 2012. This was caused by low domestic demand, overall contraction in production and belt-tightening consumer behavior, entailing from fall in demand in advanced partner economies. In Turkey, as an example, growth in GDP has fallen to 2.2 percent from 8.8 percent in previous year (chart 1). In Iran, contraction was to 5.4 percent due to low global prices for oil and burden of sanctions in the oil and gas sector. In addition, subdued growth in world's large consumer countries (China) and in trade zones (EU) led to suppression of otherwise vibrant output production in supplier economies. Along similar lines, the Kyrgyz economy has faced a serious challenge in 2012. Fall in growth was mainly due to the scaling back in the mining sector, which accounted to nearly 40 percent of the country's industrial output. Besides, a slowdown in structural reforms in 2012 as the consequence of social tensions over the previous years, has added to a temporary fall in growth of the economy.

Given the above external and internal macroeconomic factors, the region has observed its lowest growth rate, likewise in 2009. The latter year came to be the peak in the 2008-2009 global economic and financial crises.

At world's inter-regional scale, some regions have observed relatively higher growth rates in the reported year. As an example, the Association of South East Nations (ASEAN) grew at 6 percent rate of real GDP, Middle East and North Africa (MENA) 4.6 percent, and Commonwealth of Independent States (CIS) 3.2 percent. Others, including ECO, have slowed down in growth, 1.5 percent in Countries of East Europe (CEE) and 2.0 percent in Economic Cooperation Organization (ECO). The annual growth in the EU has slipped down to below zero 0.8 percent rate during 2012 (chart 2).

Chart 2: ECO and World Regions

Source: WB, IMF, ECO Statistical Network, SESRIC

<u>Inflation</u>: at the back of globally low commodity prices in 2012, the consumer price index (CPI) in the ECO region has moderated by over 21 percent vs. 2011, to facilitate gradual recovery of the regional economy. In those economies in which rigid monetary and fiscal policies were supported by accommodative flexibility of the real sector, inflationary pressures have effectively been off-set closer to

the year end. Thus, the annual average CPI rate in Azerbaijan has reduced to 1.1 percent, the Kyrgyz Republic to 2.8 from 16.6 in the previous year, Tajikistan to - 2.7 percent, and Turkmenistan to 4.9. Low inflation has enabled these economies to keep their interest rates at low bay, in spite of high volatility in energy markets, even in the face of market uncertainties, entailing considerable price fluctuations for the region's major goods and services.

On the other side of the spectrum, Turkey's annual average inflation rate in the second half of 2012 rose to 8.9 percent, however, this marked the end of the year CPI rate of 6.1%. High inflationary pressures have partly been due to protracted spill-over effects from inflation patterns of mostly European partner economies. Their CPI rates had been higher in 2010 before they were curtailed to single digits. Similarly, high inflation was not new for Iran where annual CPI rose further to 28.6 percent, mainly due to deterioration in the value of the national currency unit, excess liquidity and adverse effects of subsidy programs, among other factors. Also, Pakistan's CPI rate rose to 9.7 percent, due to an ease in banking interest rates, designed to encourage investments, which, given weaknesses of the real sector, has entailed growth in the annual inflation rate.

In the meantime, gradually increasing global economic recovery, already reflected in rising regional stock markets, has slowly been adding to business and consumer confidence. These factors would have likely translated further into higher corporate investment activities in the region, to usher much faster growth in the medium and long term. For the time being, in 2012, the annual CPI rate in the region has moderated to an average 8 percent compared to 9.7 percent in 2011 (for details, pl. see chart 3).

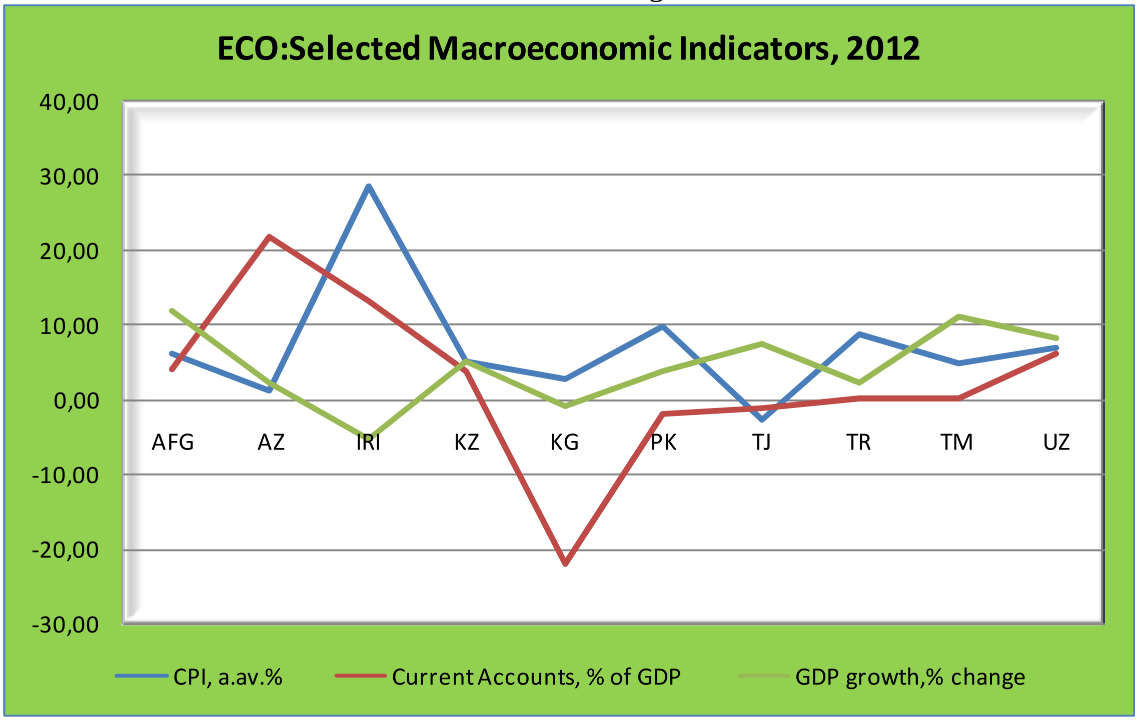
Societal aspects of the economic development in the region, including employment, have in some countries been influenced by workforce migration to neighboring economies for better paid jobs. In general, the annual average rate of unemployment in the region has registered 6.1 percent, a little over world's 5 percent 'natural' unemployment rate. For details on labor and unemployment please be referred to the ECO special report on economy in 2012. Human development aspects of labor and other details of social demographics may be found in subsequent issue of the MDGs analytical report-2012.

Budget Balance: owing to a much improved budget management in regional economies, the combined budget balance of the region has registered - 1.5 percent of GDP. Fiscal policies of most member economies of the region have been in harmony with international regulatory target figures. Such prudent management was seen to facilitate exit of the economies from the global economic crises of 2008-2009 and their post-peak 'tails', including year 2012. Even though some regional economies have faced the widening budget deficits in 2012, relative to previous years, the overall national production outputs in these countries by year end have eventually balanced their mid-year budget gaps off.

Yet, Pakistan has reported a significant 8.3 percent budget deficit, which had gradually been increasing since 2010. That was mainly due to unforeseen government expenses associated with the need to support natural disaster stricken areas and social resettlement pay offs. Luckily, Uzbekistan, Turkmenistan and Azerbaijan have reported 8.5, 6.3, and 3.0 percent budget surpluses, mostly attributed to strong investments, sustainable budget revenues, and thoughtful budget management. Further tightening of fiscal policy, as in the example of Azerbaijan, has translated into essential budget gains.

Current Accounts Balance: on the account of timely austerity measures, set by international financial institutions and owing to the fiscal policies of national governments as adjusted to economic realities of 2012, the overall current account balance of the region has registered the 2.2 percent surplus in region's combined real GDP. Major contributors to the surplus have been Azerbaijan with soaring current accounts at 27.1 percent surplus at upper levels, Iran 13.1 percent, Uzbekistan 6 percent, Afghanistan 4 percent and Kazakhstan 3.8 percent. At the same time, the current accounts balance in the Kyrgyz Republic has contracted by 22.1 percent, Turkey 5.9 percent and Pakistan 2.0 percent (chart 3).

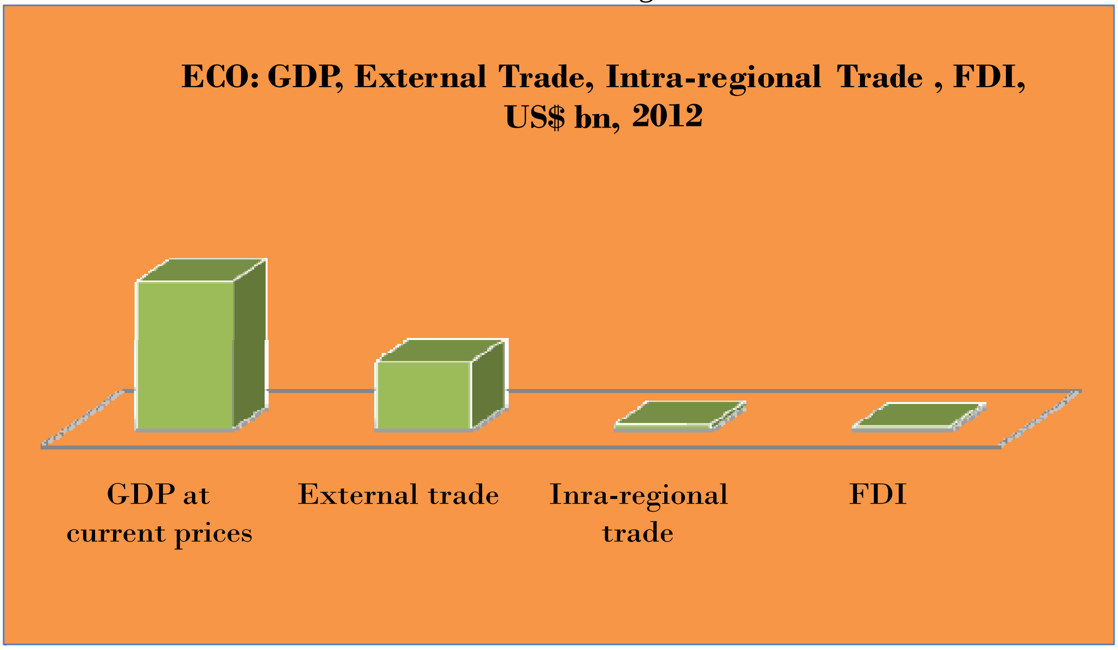
Chart 3: ECO Region



Sources: ECO Statistical Network, WB, ECO Regional Institutions

Trade: a major contributor to the current accounts balance has been external trade through proceeds from the region's increased trade turnover. Impressive rise in export volumes marked US$ 476 billion. Such performance largely owed to the increase in trade efficiency in Turkey and Iran, in spite of globally subdued commodity prices. In 2012, overall import volumes in the region settled down at US$ 426 billion, thereby enabling US$ 50 billion trade surplus. In sum, overall trade in the region reached US$ 902 billion. That indicated the 0.9 percent increase in its volume compared to trade volumes in 2011. Such increase, in spite of fall in global trade in 2012, has helped expand the overall trade bulk to 46.8 percent as the share of the region's combined real GDP in 2012 (pl. see chart 4). Compared to the 2011 share of overall external trade, US$ 894 billion, the share of external trade in the 2012 GDP has slightly reduced by 4.2 percent, due to the overall slowdown in growth of the regional economy.

Chart 4: ECO Region



Sources: ECO Country Report, Statistical Network, WTO

Intra-regional trade: successful performance in external trade has set a prerequisite framework for regional economies to enhance their intra-regional trade volumes. The latter, however, recorded 7.3 percent, leaving ahead other regional organizations on this parameter. In the meantime, the share of intra-regional trade in ASEAN with similar membership (10 countries) has reached one fourth of its total trade. In the European Union, with 15 permanent member countries, it accounted to over 65 percent, of total. Somewhat lower share of intra-regional trade, at 15 percent, has been obtained in 57 member countries of the Organization of Islamic Cooperation. The higher intra-regional trade trends in world's regions will have had positive spill-over impact onto ECO in future. It has become evident that intra-regional trade amongst ECO countries has an inherent capacity of increasing its volumes eightfold. That target has been asserted at the 12th ECO Summit in Baku, 2012. Such breakthrough increase would have been possible sooner provided that implementation of the ECO Trade Agreement is in harmony with stakeholder-set time guidelines and trade facilitation measures. Along this path, some ECO trading partners have already been introducing 'strategic products and services' to support ECO in harnessing its huge trade potential. The economies, holding common membership in ECO and WTO, (Turkey, Iran and Kyrgyz Republic) have continued benefited from each other's trade in both, WTO and ECO. Others, who have been preparing themselves for accession to WTO. Kazakhstan, Tajikistan, Uzbekistan have started easing their trade tariffs in compliance with WTO rules on trade and business.

In spite of reportedly double edge effects from WTO-accessed trade, the formula for progress in the area of intra-regional trade within ECO has been safeguarded by WTO rules and provisions of the ECO Trade Agreement. To this end, progress on trade, as blueprinted by stakeholder tasks for 2012, has pinpointed the implementation as urgency. In this, Turkey, Iran, Azerbaijan have substantially increased trade with each other within the ECO framework. Gross volumes of intra-regional trade amongst ECO economies reached US$ 66.5 billion in 2012. This accounted to 7.3 percent of the combined regional trade (pl. see charts 4,5). Compared to the ratio of intra-regional trade in the structure of gross external trade in 2011 where it stood at 7.09 percent, that in 2012 has increased by 2.9 percentage points. The process of exports and imports diversification in intra-regional trade, among other microeconomic aspects of trade, have been reflected in much detail in the research carried out for ECO on Trading Patterns in the ECO region. Relevant trade-involved authorities in the member economies have acquainted themselves in 2011 with useful recommendations relating to the ECO trading patterns in further enhancing implementation of the regional Trade Agreement, ECOTA.

FDI: back in 2008, the region was able to attract nearly US$50 billion in foreign direct investments. However, in peak global crises years, the FDI inflows have shrunk but such tendency has halted since 2011. In that year, ECO has hit a 45.5 billion US dollar mark on FDI. Looking back at historical dynamics of regional FDI in 2012 when its share in the region's combined real GDP reached 1.4 percent; one may have spotted a gradual upward increase in a decade of economic activities. Yet, such increase has translated into a moderate 2.3 percent FDI share of GDP in 2012, as the volume of GDP has concurrently increased (charts 4 and 5). This factor has necessitated measures to increase FDI's physical weight in GDP in the near future - for the region to be able to reach sustainable levels of business dynamics amongst regional partners as well as international investors at global level. In line with stakeholder guidelines, the regional FDI will increase, once industrial innovation and high technology built-in services, including those on trade and hyper mode transport designated for trade, are in place at regional scale.

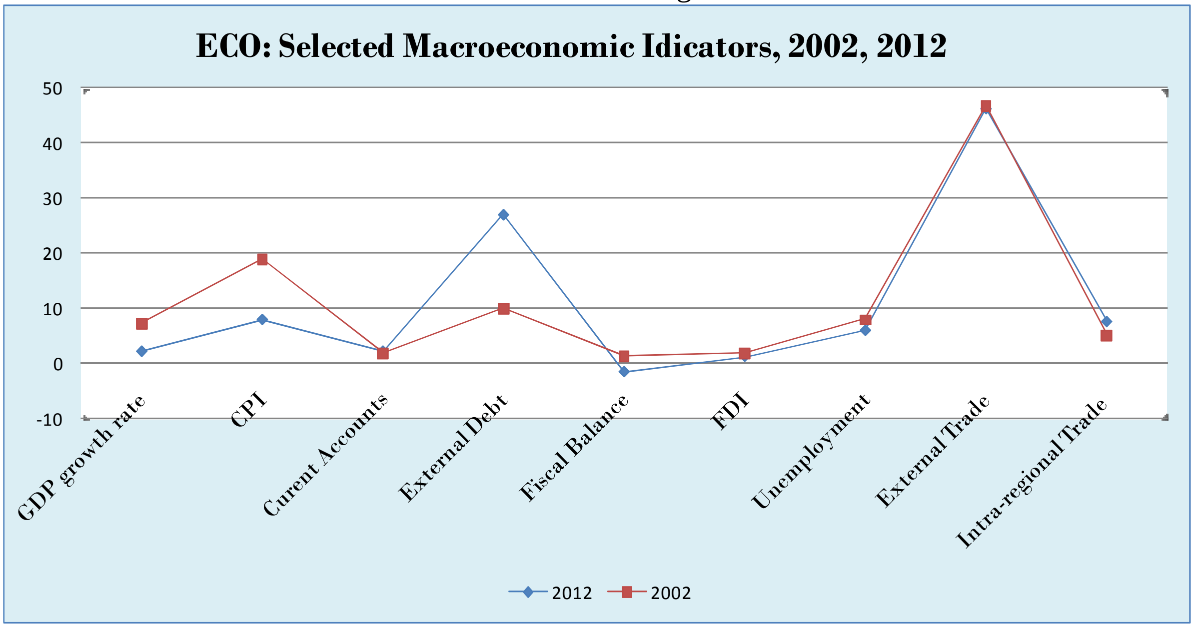
External debt: at the background of relatively low external debt compared to that of world's other regions, general government debt continued to fall throughout 2012 (charts 4,5). That tendency helped reduce gross external debt to US$533 billion. As a result, the region's external debt to GDP ratio has contracted to 27 percent, on average (compared to 35 percent in two previous years in a row). Thus, the region's external debt has registered world's regions' lowest in 2012. Such improvement was largely due to prudent fiscal management by national governments, timely debt restructuring, and gradual recovery in the banking sector. In addition, international debt relief facilities offered to small low income economies has been instrumental. Indebtedness in Kyrgyzstan and Turkey has exceeded the regional average against lower debt rates of other ECO economies. On the positive side, almost 90 percent of the Kyrgyz sovereign debt had been foreign owned, as had non-performing loans in Kazakhstan. These were also in soft loans that can easily be relieved by international partners. Turkey, having experienced a temporary setback in 2012, partly due to its external debt, high for a fast developing economy, will have geared for quick recovery in subsequent years on the account of its robust *high-tech* manufacturing base.

Outlook: the above macroeconomic overview characterizes performance of the ECO region in 2012 as stable. The region has been observed as fully aligned with prevailing trends in world's other regions towards macroeconomic stabilization in post global economic crises period. As started in 2011, the process of industrial innovation in most economies has stepped up its next phase – establishment of a knowledge based economic system to obtain greater competitiveness in global markets. Based on the above, the outlook for the near future is promising. The region is well endowed with economic resources, especially, in energy, agriculture, human capital. It also avails of vast land fit for expansion of transport infrastructure - to boost intra-regional trade. In its historic evolution, the region has repeatedly been hit by major global crises in 1998 and in 2008. Within than period, the economies were affected by a global downturn in 2001, but growth had quickly bounced back in 2002. That was mainly at costs of rapid recovery in Turkey. Of no less expeditiousness was recovery in Pakistan and Iran that have also pushed their economies forward onto a fast track regional economic recovery. Concurrently, other ECO member states, after setbacks associated with their transition to open market in the 2000s, obtained healthy growth rates that lived through a number of subsequent years in a row. The already high rates of growth prevailing, by then, in Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan and Tajikistan have eventually hit sustainable levels in 2002. For regional spotlights please see chart 5.

Thus, economic rebound in 2002, bailed out by strong globally adjusted domestic policies, led to a higher overall growth in the region, reaching its peak in 2007-08. However, in September 2008, the world dipped into another more severe crisis. This time the recession was deep. Since then, four years have passed. Reforms proved an essential and continuing process in need to be securely safeguarded in development strategies of ECO economies. The details of recovery process from the 2008 global economic crises have been reflected in annual reports 2009, 2011. Further, a much improved performance of the ECO states and favorable outlook for near and medium term future has reflected resistance of the ECO region against global shocks, experienced throughout the preceding peak crises years.

Over the past two decades, structured liberalization and gradual macroeconomic stabilization have been reinforced by continual economic and societal reforms as well as adjustments in policy support. However, this process is not complete yet as the region strives to set itself on a firm footing of full macroeconomic stabilization, to ensure shared prosperity. The near future foresees a breakthrough industrial innovation of economies, concurrent to exit strategy policy reforms. The combination of regional and country level economic activities in a targeted economic breakthrough towards sustainable, inclusive economic growth would effectively help overcome the challenges of the undisputed reality such as globalization.

Chart 5: ECO Region



Source: ECO Country Reports, Statistical Network, WB, SESRIC

In view of past realities, having experienced two global economic downturns, the region has not fully distanced itself from the risk zone of potential setbacks as evident from the growth pattern in 2012 (chart 5). With the increasing size of regional production volumes that grow at upward scales as does the population of the region as it surpasses US$ 433 million in 2012, the goal of obtaining the truly irreversible economic growth levels, capable of consolidating sustainable levels in production volumes in the near and medium term will be sooner, if knowledge based economy is in place. Furthermore, ECO countries would remain strongly committed to expected highs of full macroeconomic stabilization, good economic governance, flexibility in day-to-day economic management, to resist unforeseen systemic risks that might emerge in the near-to-medium run. The prospective is for national governments to target a fast track industrial innovation, high technology development - to enable their respective economies to eventually exit from global recess and consolidate full macroeconomic stabilization. The task of maintaining economic competitiveness in rapidly changing global environment is for the medium term.

In support of the above encouragingly positive outlook, the region's GDP is projected to grow by an estimated 2.0 percent in 2013 to regain and further consolidate a sustainable 7 percent growth rate in the medium term. External trade would further increase to reach US$ 1 trillion mark. The region's combined real GDP will trespass US$ 2 trillion in volume. The per capita real GDP would exceed US$ 4,931. Inflation would moderate to below 8 percent, annual average. The current accounts would remain in surplus at an estimated 2.7 percent of GDP. Fiscal budget deficit would further improve to an estimated 1.0 percent of GDP. External debt would moderate to about 25 percent of GDP. FDI would continue its upward trend to US$50 billion. The projected upward growth in the regional economy would re-generate employment expectedly by private sector. Unemployment would be downscaled to 5 percent, on average. *Ceteris paribus* that the external environment in MENA and South Europe confines to its boundaries with no significant impact on to immediate neighborhood, the ECO region will be looking forward to the shared, sustainable growth and unhindered prosperity in the medium term.

Part II. Main Milestones in Regional Sector Development in ECO

Major milestones of economic development in the region during the reported period have resulted from stakeholder action-oriented guidelines. The 22nd Regional Planning Council of ECO has presented a clear road map for each sector of regional economy. The results of implementation of the work program designed for fruition in sector areas of the ECO during 2012 have been assessed against the outcomes of actual realization and finalized by the Council of Ministers on October 15th, 2012, in Baku, Azerbaijan.

As mentioned in annual economic reports of previous years, economic sectors, prioritized by member states for regional economic cooperation, have been incorporated into the main documents of the organization, Treaty of Izmir and others. The priority sectors of regional economy, in the center of stakeholder attention in the year 2012 have been: transport, trade, and energy/environment. The sectoral ministerial meetings have assessed progress achieved in these areas during the reported period.

Transport Sector: clear tasks set by stakeholders for year 2012 in this sector were to implement rail road projects along the following priority routes: Qazvin-Rasht-Astara, Uzbekistan-Kyrgyzstan-China and Kyrgyzstan-Tajikistan-Afghanistan-Iran-Turkey. Through the guidelines, committed in the Baku Declaration-2012, expansion of the ECO regional transport network was geared to increase cargo and passenger transportation across the region. Among other priorities on transport for the accounted year, the removal of existing obstacles along the rail corridors: Bandar Abbas-Almaty, Islamabad-Tehran-Istanbul, and Istanbul-Almaty has been specified by stakeholders, in particular.

The above listed activities have been primarily meant to achieve greater economic integration and interdependence amongst regional economies through transportation network. That was to increase social benefits for the regional community by the provision of increased transportation and easy access to roads.

As with earlier acknowledgement of the strategic importance for the regional economy of the transport sector, its dynamism seen in 2012 was significant but real time changes turned out moderate. To that end, although the overall length of railways in the region has expanded by 9.8 percent in 2012 compared to 2002 (where expansion recorded 48,433 kilometers, in total) the situation in 2012 remained largely unchanged versus previous year 2011. Such turnout signaled that the major focus in this sector came on the rehabilitation and up-gradation of existing railway roads during 2012 rather than construction of new ones, for much needed connectivity amongst economies from within the region.

On transportation, the overall cargo mass carried by regional railways increased by 36.2 percent compared to 2002 where total cargo accounted to 195092 million ton-kilometers. If in the previous year, Turkey and Kazakhstan staged regional heights in cargo transportation, in 2012 the Kyrgyz Republic has increased its cargo transportation by 15.5 percent, Azerbaijan 4.0 percent, while Tajikistan has rolled down its operations by 21 percent.

The transport sector deserves a strategically important *niche* amongst other priorities in ECO for the reason that its main objective is to provide connectivity and transportation services to over 433 million population of the region. With certain dynamics in the up-gradation of asphalted roads in the ECO region of which the details had been reflected in 2011, the need in the transport sector, as specified by ECO policy makers has centered around the prospective expansion of railways and development of high-tech mode transportation, to facilitate trade exchange and further expand it.

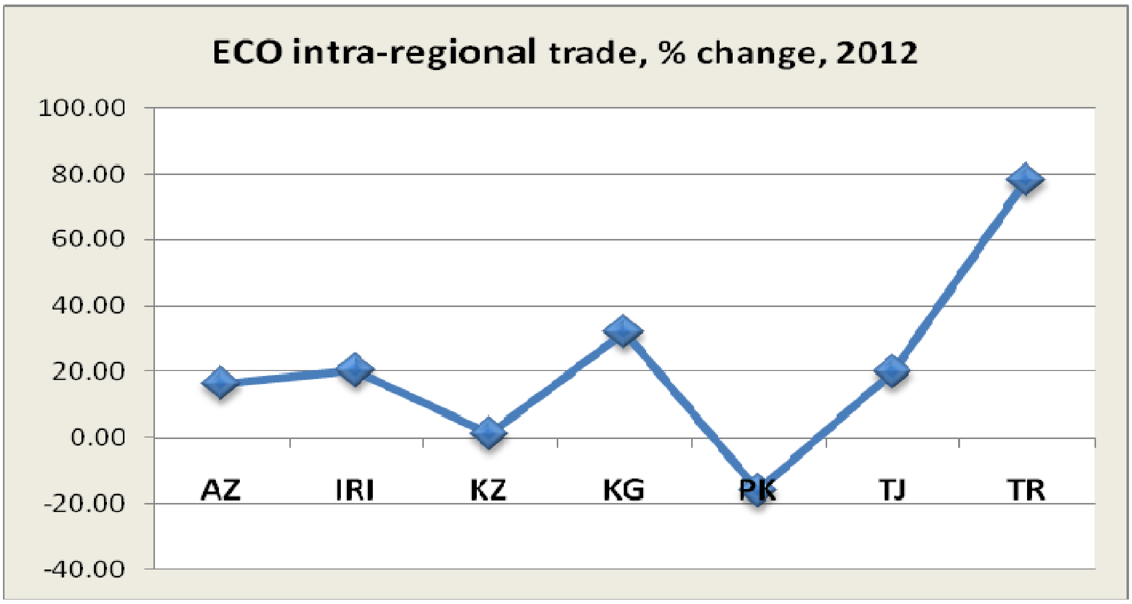
In addition, progressive future development of regional airlines had been pointed out by the ECO decision makers during the 20th Regional Planning Council Meeting (18-19 February 2010, Turkey) and 21st RPC (17-19 May 2010, Iran), as mentioned earlier in the report. Employment opportunities for regional work force are yet to come in this area, given outstanding potential of the region's transport sector.

Trade Sector, the dynamism in volumes of the regional external trade has been robust in 2012 at US$ 902 billion, in total. The region has observed a trade surplus of US $50 billion. Thus, the total trade has augmented by 0.9 percent compared to its volume in 2011 where it had registered US$ 894.6 billion.

Over the past, Turkey, as lead trading partner in the ECO region, has effectively diversified its trade partners. Given sluggish consumer demand for imports in most European countries, Turkey has intensified its trade with world's other regions such as MENA, ASEAN, ECO. Within ECO, Turkey's trade with Iran rose from US$ 3.6 billion in 2011 to US$ 9.9 billion in the reference year. Such increase was at 175 percent rate compared to 2011. Vibrant intra-regional trade b/w Turkey and Iran has upgraded Iran as Turkey's second largest trading partner after Germany. Similarly, Turkey traded with Pakistan at an increased 28.9 percent. In this, Turkey's trade volumes have increased from US$ 214 million in 2011 to US$ 276 million in 2012.

Following Turkey's example in setting 78.1 percent increase in intra-regional trade volumes with ECO countries, that of the Kyrgyz Republic has increased at 32.03 percent, Tajikistan 20.1 percent, Iran 20.4 percent, Azerbaijan 16.5 percent, accordingly (pl. see chart 6).

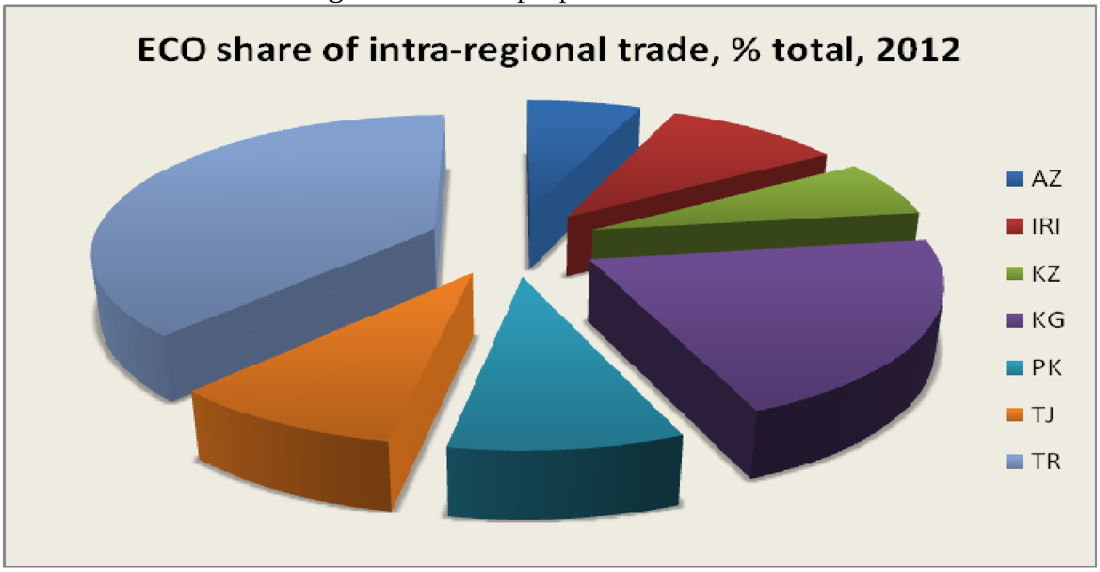
Chart 6: ECO Trade



Sources: ECO Statistical Network, Country Reports, WTO

The proportion of intra-regional trade with ECO in the structure of overall external trade of ECO economies is critical for visibility of the Trade Agreement in action. In 2012, the share of intra-regional trade in ECO countries have accounted to 17.3 percent in Tajikistan, 9.6 percent Kyrgyz Republic, 4.5 percent Iran, Turkey 4.2 percent, 4.19 percent Pakistan, 2.9 percent Azerbaijan, and 2 percent Kazakhstan (chart 7).

Chart 7 Intra-regional trade as proportion of external trade in ECO



Source: ECO Statistical Network

At the back of fresh impetus in intra-regional trade volumes, the surplus in the overall external trade of the region has registered its historic high at US$ 50 billion, as referred earlier in the report. The tendency for surpluses in the trade balance of the region has been sustained over a decade. This factor creates a rare opportunity for regional traders to expand intra-regional flows of goods and services in ECO, given conducive environment in the overall trade performance of the ECO region.

The encouraging forecast for near future in this area would be to improve economic competitiveness of ECO, a global trading partner. That has been emphasized by ECO to be the prime and most urgent task. In the meantime, in 2012, Turkey, Azerbaijan, and Kazakhstan have visibly improved their global economic competitiveness ratings.

Given impressive performance in gross external trade and positive trends in intra-regional trade amongst ECO economies, the objectives, set for the trade sector by high level policy makers in ECO, have been on the establishment of a free trade area. As stated by Turkey's Foreign Minister H.E. Dr. Ahmet Davutoglu during the 20th Council of Ministers Meeting on 15th October 2012 in Baku, "the ECO Vision 2015, adopted back in 2005, envisaged to increase intra-ECO trade to 20 percent of the overall trade of the member states, and with the objective of ultimately establishing a Free Trade Area by the year 2015." Given the remaining three years against original targets, the projections for near future perspective are such that if the Trade Agreement is implemented in ECO, trading amongst its members will increase eightfold, according to Turkey's most quoted economists.

On the other side of the spectrum, without efficient transportation of goods and trading commodities across the region and, for that matter, extensive transport network in place, the speedy removal of trade barriers may be hinged with complexities. From this stance, putting the development of transportation network in place in near term would effectively streamline the process of trade expansion in the medium run. As re-iterated at the 20th COM by Pakistan's Foreign Minister, "the objective of enhancing intra-regional trade would remain unattainable in the absence of a well-functioning system of transport in the region. The fact that the majority of ECO members is land-locked, makes the cooperation in this field all the more important. Thus, implementation of the Transit Transport Framework Agreement would be instrumental in establishing viable region-wide corridors of transport."

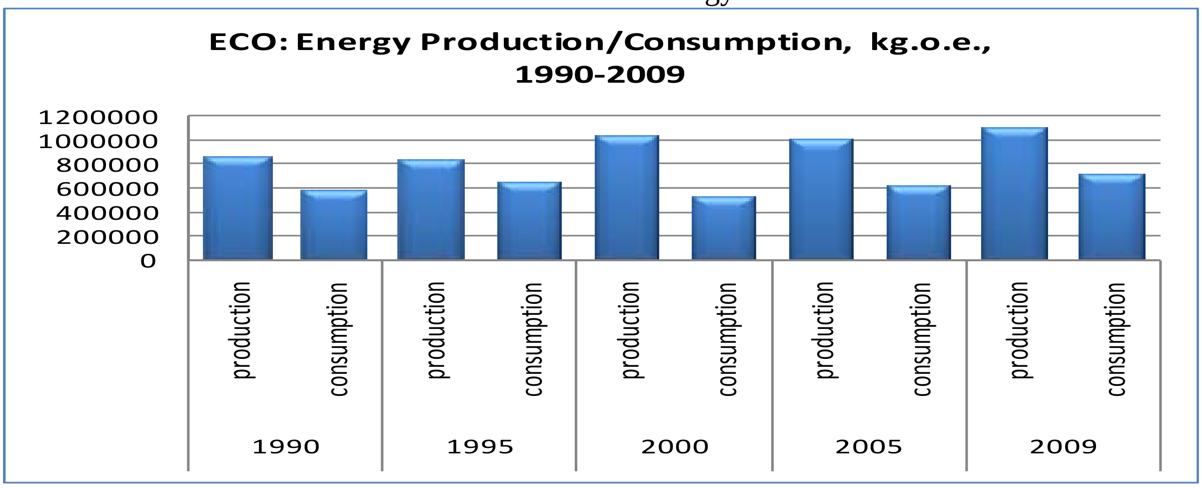
Furthermore, the research on perspectives of intra-regional trade, which has been carried out for ECO by Kazakhstan's research team, has provided a useful policy recommendation which advocates for the establishment of the Customs Union in ECO and advises on the applied practicality of the Union. Such policy, if followed in practice, would open up a gateway to the realistic day-by-day implementation of provisions of ECO Trade Agreement.

For another, the recommendation to decrease banking interest rates (even at the cost of subsidies) for loaning of export-oriented industries is equally applicable as it would not only boost intra-regional trade but also expand the services sector. The recent trends in world's trading do signal that trade in services has increasingly been budgeted by world economies as a strong source of revenues. In some countries it has even emerged as a new viable sub-sector. To that end, the services sector of the member economies, engulfing "Trade in Services", has gradually started expanding. Those of Turkey, Pakistan, Kazakhstan, and Azerbaijan have been increasing at an impressive scale. As a result the services sector of the region has expanded significantly in 2012 compared to 2011 largely on the account of increased "trade in services".

Energy/Environment Sector:

Energy undoubtedly plays a central role in the global economic system. No single economic sector remains unaffected by changes in the energy sector. To this end, economic interdependence between energy and others sectors of world economy is tightening day by day. In this view, energy sector in the ECO region is pivotal for transit transport, and trade, and environment. According to estimates of the research project group of Population Studies and Research Center of Iran (PSRC) who carried out a research for the ECO region, energy production and consumption over the period 1990-2009 has been relatively even with no sudden 'jumps and falls' (chart 8).

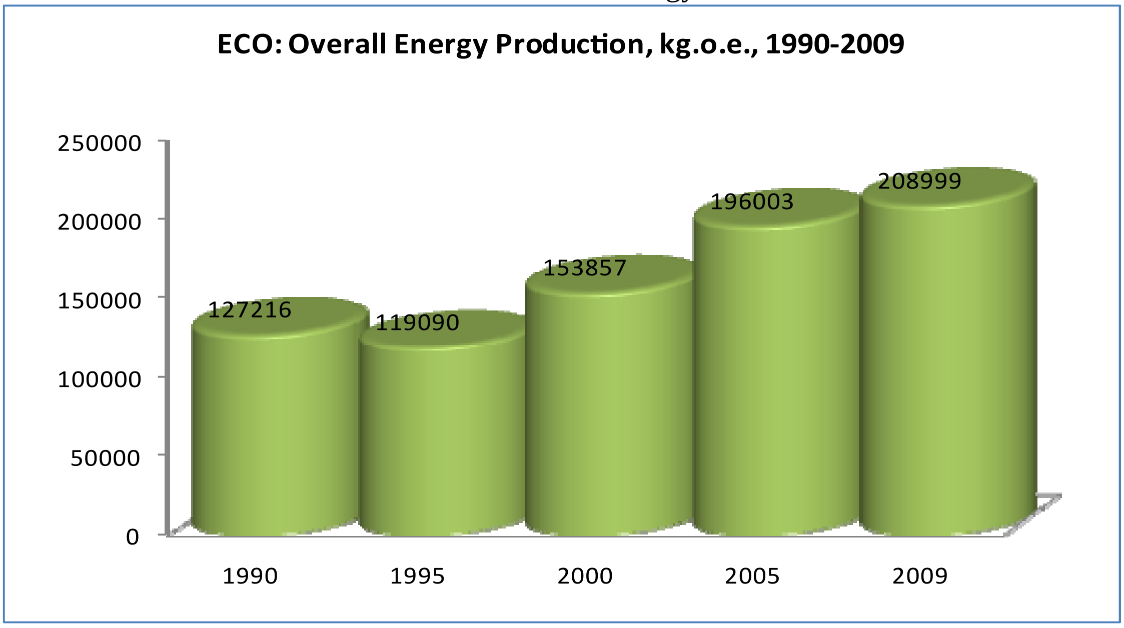
Chart 8: ECO Energy



Source: PSRC of Iran

The dynamics in overall energy production for the period 1990-2009 reflected the peak 29.2 percent growth in ECO economies during the 2000s against volumes in the 1995s. The 2000-2005 period has observed production of energy at 27.4 percent compared to the previous 1995-2000. Reflection of prevailing trends in energy production (short of consumption for exports) at 6.6 percent within the period from 2005 to 2009 showed an increase in domestic consumption. Even then, production volumes that were designed for exports have been in excess (chart 9).

Chart 9: ECO Energy



Source: PSRC of Iran

The trading power of the energy sector has been emphasized in previous annual reports where the focus was on regional economies' capacities in electricity production as a renewable energy resource. To that end, the tilt in ECO was for integration of regional electric grids. Moreover, expansion of electricity production adds to the environmentally clean energy generation from renewable resources, electricity being one of them.

Along similar lines, Turkey's wind energy potential stood at 38,000MW in 2012. The plans to install 20,000MW wind capacity by 2023 are in progress. By 2023, Turkey targets renewable energy sources in electricity generation to reach 30 percent of total. 8 nuclear reactors with the capacity of 10,000MW will be deployed, and construction of 4 additional reactors of 5000 MW has been planned. All these steps are a manifestation of Turkey's strong renewable energy sector to emerge in the near future.

Kazakhstan has set priorities in its national program on the development of alternative and renewable energy for 2013-2020, which foresees installation of 1040MW renewable power by 2020. 13 wind power, 14 hydroelectric stations, and 4 solar stations are expected to be operational by 2023. The relevant authorities have been carrying out in 2012 a technological assessment of alternative energy for production.

In support of clean energy, Iran has opted to generate 5,000MW of electricity from renewable energy sources, including from nuclear.

Turkmenistan has ever been least country in the ECO region, availing a meager 1,2 MW hydro power energy, which accounted to 0,1 of the country' total energy production. There is a distinctive niche for ECO to fill in by renewable/alternative energy. Reversely, Tajikistan's hydro power stood at 92.7 percent of the country's total energy production. Likewise, Kyrgyzstan has 2949 MW hydro power which makes up 78 percent of total energy generation in the country. It also availed of 831MW thermal power, accounting to 22 percent of the country's overall energy generation. Uzbekistan's potential, along the similar criteria, stood at 7295MW of hydro, and 1379MW of thermal energy. That made 84.1 percent and 15.9 percent of overall energy production in the country, respectively.

Summarizing the above, production of energy in the region during 2005-2009 has increased at 6.6 percent rate, in overall, but consumption grew even faster. That led to diminishing of energy surpluses in excess of production, to be offered for trade, intra-regionally. Given that Turkey to the lesser extent, and Pakistan to much greater extent, have been net importers of energy, the intra-regional demand for energy will remain strong even in the face of shrinking surpluses, growth in which will bounce back at increasing scales to be concurrent to the future projected increase in the economic growth of the region.

Having set a major interest on production and consumption, we, often times, underscore the true meaning of energy productivity and environmental concerns. Moreover, the Baku Declaration-2012, a most recent forwarding guideline document for ECO, has renewed its emphasis on "the vast potential of the ECO region in the field of renewable resources of energy and its importance for sustainable development, increase of energy productivity and efficiency, as well as cleaner energy production." The research conducted by Iran's researchers, has revealed Turkey as most energy productive country in ECO with nearly 9 percent growth rate in energy productivity for nearly three decades in a row (through 1990, 2000, and in 2009). The GDP per unit of energy use was taken as measurement of the country's energy productivity. The researchers have developed a policy recommendation for ECO that energy efficiency be pursued by the member states as a strategic national priority. The research-driven policy recommendation has been justified not only by increasing consumption growth patterns but also by the harsh competition among world economies in their securing energy resources for future generations (world population is projected to hit 9 billion by 2015). Competition has been intended to spur efficient use of energy and channel world's reliance on nature-generated renewable sources, including solar, wind, water, and biomass.

Supporting the above priorities by tangible economic activities in the energy sector, the region-scale projects have been followed up throughout 2012 against implementation of provisions of ECO Plan of Action on Energy. A series of capacity building training exercises have been provided to energy experts that carry out their work duties at wells in the field. These have added to the revenues maximizing value of the energy sector in the ECO region through the improved skills.

Part III. Country Reports

Afghanistan

In 2012, Afghanistan's economy has been characterized by a more challenging insecurity, increasing but still insufficient institutional capacity, much needed for further advancement of once initiated economic reforms. Policy and regulatory requirements, sometimes mixed in their major focus amidst multifaceted approaches by international aide agencies have, in part, added weight to institutional insufficiencies. Moreover, lack of skilled human capital at grass root level poised a serious challenge. The protracted time period, needed for tuning the mindset of active work force towards greater ownership of development processes and governance in the country has supplemented a basket of other challenges that the country has been facing during the reported period. In their entirety, these factors have stood in the way of implementation of ongoing macroeconomic reforms.

The steps enabling a self-reliant economy, agricultural productivity, strengthening of rural economy, the human capital incapacitating, building necessary infrastructures - to support business climate for investors and institutional development effectiveness - have been urgent on Afghanistan's development agenda throughout 2012.

In spite of the above structural hardships, Afghanistan's real GDP grew at a spectacular 11.9 percent in the reported year. Moreover, during the past global crises years, economic growth has accelerated at over 10 percent rate, on average. That partly attributed to a healthy absorption of international donor support and grants. The volume of real GDP increased to US$ 20.3 billion and the real GDP per capita has marked US$ 680.

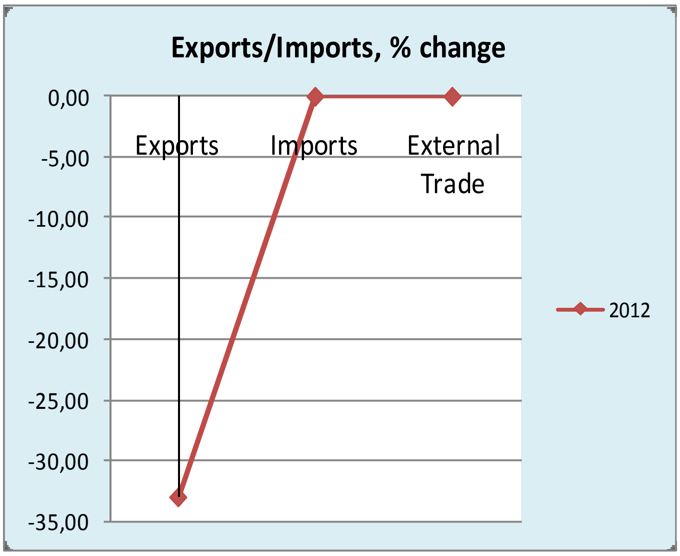
In trade, imports increased by 8.7 percent and recorded US$ 6.943 billion in the reported period compared to 2011. Exports have contracted by 3.3 percent mostly due to fall in global prices for resource commodities, including on wheat. These have moderated to US$ 364 million, by year end. The overall trade volume marked US$ 7.310 billion indicating 8 percent increase in overall volumes relative to those in 2011. The trading quantities in 'unaccounted' goods have increased, at output. In that, illicit exports of opium were reported by international sources to have reached in 2012 an estimated 13 percent of the country's GDP. As with donor support, primarily targeted at the reduction of opium production, the process, however, tended to reverse from its originally set targets, due to diversity in international approaches to the process. The technical assistance provided by ECO, in this regard, has been dynamic, mobilizing substantial regional support to the fight against drug trafficking from/to Afghanistan. In addition, encouraging trends in lessening agriculture production have revealed themselves in the structure of GDP where services have balanced off the 5 percent decrease in the agriculture sector. The latter shrank from 27 percent in 2011 to 25.4 percent in 2012. Accordingly, the services sector rose by equal percentage from 47.8 to 50.3 percent in the reported year.

With the coordinated development technical assistance, the country, in the face of major insecurities, entailing from a decade of war, has succeeded in greater ownership over managing its capital. The current accounts reached 4 percent surplus in GDP. Over the past global crises years, Afghanistan's current accounts have observed surpluses at average 2.4 percent.

At the back of low indebtedness, largely relieved by global donors back in 2010, the country's external debt has minimized. The total relieved debt amounted to US$12 billion. Thus the country's debt to real GDP ratio has sustained at 11 percent low over the past five year crises period. For selected macroeconomic indicators please see charts in Table 1.

Table 1: Afghanistan

Selected Macro Indicators

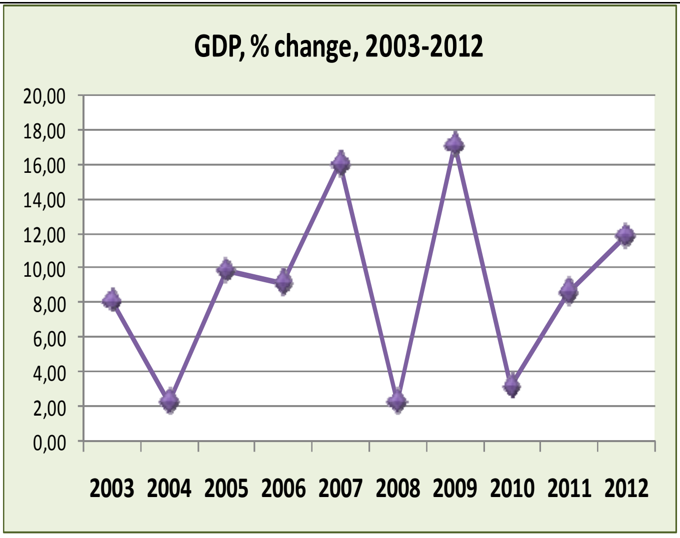


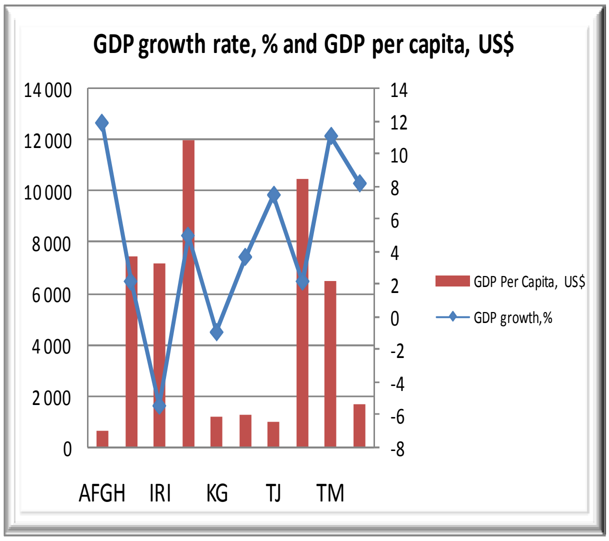
Current Accounts, % of GDP	4.00
External debt, % GDP	11.00
External Trade, % GDP	35.6
External Trade, US$ billion	7,300
Exports, US million	364
Imports, US billion	6,9
GDP at c. p., US$ billion	20,497
GDP, % change	11.9
CPI, a. av.%	6.2

Transport	
Roads	88 km upgraded.
Railway	4 million tones transported.
Regional airports	4 fully operational.

Energy Sector	
Electricity transmission lines	510 km installed.
Participating countries	Afghanistan, Tajikistan, Turkmenistan,
	Uzbekistan
Natural gas wells	8 opened.

Growth of Economy	Structure of Economy





Following the 11.9 impressive growth rate of real GDP, the country's transport sector has made a visible breakthrough in the reported period. The first railway line between Afghanistan and the neighboring Uzbekistan (which details were reflected in the 2011 annual report), has become fully operational in 2012. It has shifted over 4 million tons of goods. For the most part, Uzbekistan's support in this effort has resonated with the spirit of solidarity and greater economic interdependence amongst neighboring countries of the region. International assistance has been instrumental, in this regard. The railway has helped generate jobs and break the cycle of poverty and violence with the aim of consolidating the long awaited stability and peace in the country.

For the reported year, Afghanistan had planned upgrading 570 kilometers of national and regional roads. In practice, the efforts to improve 88 kilometers of roads with the final destination to Bamian have been rewarded by a successful completion of up-gradation works by the end of year 2012.

In aviation, all four regional airports, initiated with international support, in pursuit of the initiative on expansion of the regional aviation network, have been put to full operation in 2012. In this setting, Afghanistan has shouldered aviation through its strengthened ownership and on-the-field capacity building, resulting from holistic international partnerships and visible structural improvements.

In energy sector, 510 kilometers of integrated transmission lines have delivered sensible benefits to the peoples of Afghanistan, Tajikistan, Turkmenistan, and Uzbekistan through access to electricity. Such collective effort may also be viewed as a core framework for gradually expanding into the development of an integrated electricity network within ECO. The fact that Afghanistan, world's lowest in access to electricity, has engaged itself in the process of integration of electricity grids with the help of neighboring economies, has set an actionable example for other ECO economies to follow.

Intensive exploration of gas wells in Afghanistan has continued throughout 2012 and resulted in the opening of eight gas wells. With Turkey, being an international donor country, and the Turkish International Cooperation Agency, already in Kabul, the necessary projects logistics has been in place, to exert much needed technical consultancy support in identifying integration-focused economic opportunities through projects in energy sector, in line with stakeholder tasks, envisaged in the Treaty of Izmir - "*to obtain maximum utilization of energy resources available in the ECO region*".

Being mainly a rural economy with the 31.5 percent share of GDP, largest in ECO, Afghanistan has significantly increased its agriculture production. In this regard, ECO had, in the past, forecasted that Afghanistan's development of livestock and orchard plantation would progress in the later period when the infrastructure for agricultural production is installed. Those forecasts were on the account of the 50 percent increase in cereal production, back in 2002. These were mainly wheat, barley, maize, rice at 5.4 million tons in gross volumes. After a decade past, the progress during 2012 in this area has turned out tremendous: Afghanistan has become world's 9^{th} largest producer of the above quoted sorts of cereals.

In the medium term perspective, Afghanistan looks forward to holding presidential elections in 2014, and parliamentary elections in subsequent year 2015. The economy will be solidifying its achievements and gains, obtained through the increased economic growth. Depending on the outcomes of upcoming political campaigning, the economy would gear to continue its upward economic growth at an estimated 12 percent rate in 2013. The forecast for 2014 is for the economy to grow at 12.7 percent rate. With inflation below 5 percent and unemployment below 4 percent (fit for advanced economies) at the back of forward-geared surpluses in the current accounts, increasing imports, and the consolidated fiscal budget, the outlook for the near future and medium term is positive, tuned for greater economic ownership and self-reliance. Such forecast will prove true provided the campaigning for presidential and legislative posts will leave the country's economic setup undisturbed. The latter has been significantly strengthened in 2012 by strenuous efforts of the people of Afghanistan.

Azerbaijan

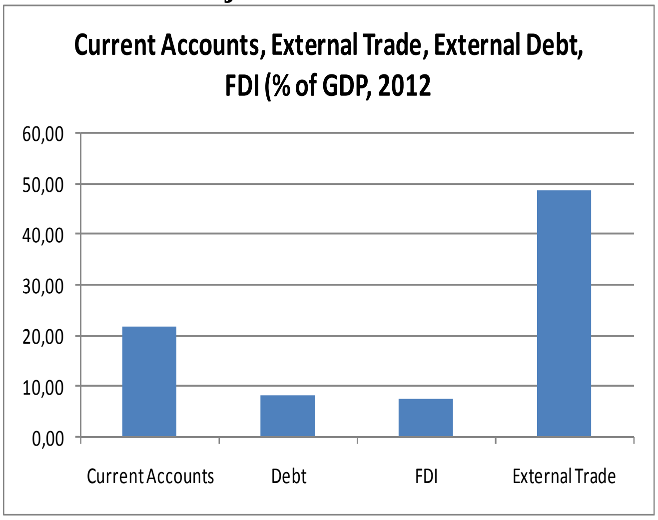
A shift to a knowledge-based economy in Azerbaijan has followed world's prevailing trends in its developed and developing economies, as part of exit strategies from the global economic crises, and a chart path to resist potential future global economic shocks. Such a shift has been reflected in the country's national strategy for 2011-2020, in which knowledge has become a major driver of value added in future perspective economic growth.

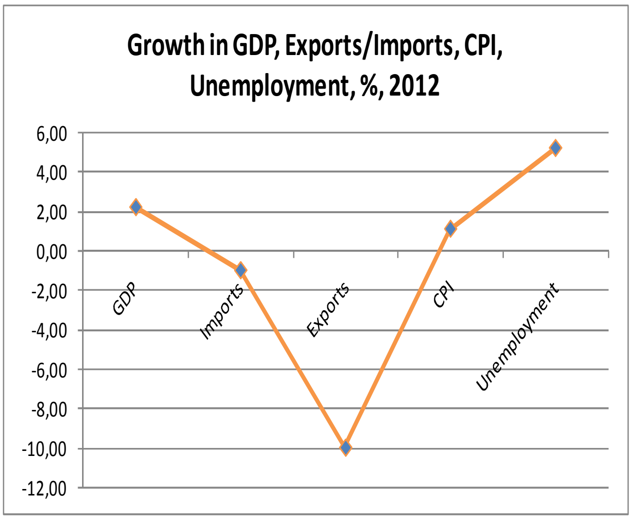
Development of Azerbaijan's mainly oil-sector oriented economy over the recent past has necessitated the improvement of existing infrastructures and construction of economically innovative settings for the future inclusive social development, to focus on the improvement of the non-oil sector, in the first place.

In the meantime, in 2012, production of oil and gas has started reducing its share in the country's budget revenues, enabling the non-oil sector to step in. The latter has geared to play a critical role in gradual re-gaining of buoyant economic performance, projected for the mid-term future.

Having the current accounts in surplus at 21.7 percent of GDP, growth in the country's real GDP increased from 0.1 in 2011 to 2.2 percent in 2012. In any given economy, healthy dynamics in the current accounts is a sign of sustainable growth. Over the past years of global crises, Azerbaijan's current accounts recorded impressive 26 percent surplus, on average. That has demonstrated solidity in the country's capital and trade operations, regardless of temporary setbacks in growth, customary for an oil producer economy. For selected macroeconomic indicators please see charts in Table 2.

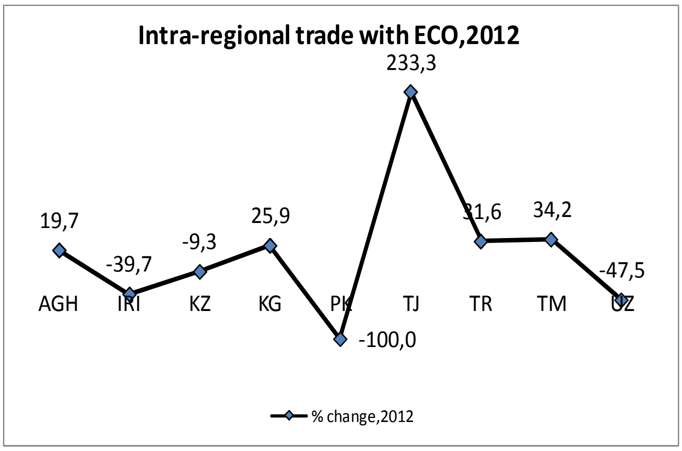
Table 2: Azerbaijan





Energy	**% change**	**Volume**
Crude oil production	(5.3%)	42984,9 million tones
Natural gas	6.8 %	20439.9 million kWh electricity generated

Trade



Transport

Highways/rural roads	200 km upgraded.
Civil aviation	Passenger transportation, increase by 14.7%.
Share of civil aviation in the transport sector	Increased by 5.5%.

As one of world's top fastest growing economies in the recent past, Azerbaijan has faced a slowdown in 2011 and started a gradual recovery during 2012. But such short-lived setback was caused by the necessities associated with economic restructuring, in preparedness to much higher more sustainable future growth. Regardless of slowdown in the reported year, per capita real GDP growth has remained unaffected, rather increased by 2.8 percent to the US$ 7,490 mark, third highest in the region. Accumulation of social wealth has remained undisturbed, as the real GDP per capita has been increasing at an average 5 percent over the past global crises years. Over the same period, unemployment has registered low 5.0 percent, on average. In 2012, it neared 5.2 percent, annual. The volume of real GDP reached US$ 68.7 billion in volume.

Low indebtedness has conventionally been a gateway to long-term economic sustainability. The external debt of the country has moderated to 8.3 percent, on average, over the period 2008-2011, far below the regional average. Inflation has been suppressed over the recent past, and in 2012, it showed 2 percent annual average, one of the lowest in the region.

In trade, the volume of Azerbaijan's overall external trade has reached US$ 33.5 billion. Exports went down by 10 percent. So did imports, by 1 percent, compared to volumes in the previous year. Still, surpluses in trade have recorded US$ 14.2 billion mark.

In spite of reduction in gross external trade, a positive turnout for the ECO region came to be a significant increase in Azerbaijan's intra-regional trade with ECO economies in 2012. Exports to ECO countries increased at 16.5 percent rate compared to 2011 and reached US$1 billion. Imports gained US$ 2.05 billion, increasing by 19 percent against the 2011 volume. The share of intra-regional trade in gross external trade volume has registered 9.1 percent. That share accounted to trade transactions by private sector alone, mainly small and medium trading companies, which have primarily targeted intra-regional trade with ECO. For that matter, Azerbaijan, having assumed its chairmanship in ECO for the year 2012, has fully delivered on its commitments in expanding intra-regional trade volumes amongst ECO economies.

The by-sector economic development in Azerbaijan during 2012 has added a much needed strength, especially to the transport sector. In that, nearly 200 kilometers of highways and rural roads have been upgraded. These directly and indirectly benefited the 9.2 million population of the country. No visible change, however, has been observed on railways and asphalted roads. These remained at 2068 and 18825 kilometers, compared to the previous period. In aviation, passenger transportation by air has increased at 14.7 percent rate. In overall, the dynamism in the transport sector has enabled expansion of this sector to 5.5 percent in the structure of GDP.

In agriculture, water security has been in prime focus over the reported year. The measures designed against potential flooding, in preparing for future global climate change driven repercussions for the coastal area populations, have been taken on during 2012. These have turned out to be also concurrent to the overall water sanitation and water security operations in the country. Subsequently, fishery, an economically advantageous specificity of the country, has increased its production at 12.5 percent rate.

In energy sector, the focus of the economy has started shifting to the development of renewable energy sources. That has added to the newly revived activities on the development of non-oil sector. As reported in 2011, Azerbaijan had launched a project on the development of renewable energy, sponsored by the EC at 500,000 Euros and Norway at 790,000 Euros. The project has been envisaged to adjust into Azerbaijan's existing regulatory framework during year 2012 along the path towards the development on renewable energy sources.

In traditionally prevailing oil sector of the economy, crude petroleum production in 2012 has contracted by 5.3 percent. Gross oil production volumes have recorded 42984.9 metric tons. Natural gas volumes have increased by 6.8 percent and such increase was to generate electricity at 20432.9 million kWh.

Private sector development during 2012 received substantial support of the government. As mentioned earlier in the report, involvement of private small & medium sized trading companies in the 16.5 percent increase in Azerbaijan's trade with ECO in 2012 has been directly supported by the government, in fulfillment of country commitments on regional trade expansion. In addition, effective diversification within framework of the knowledge based economic model of the country has resulted in rapid industrialization of the agriculture sector, of which production in 2012, increased by 5.8 percent compared to 2011. Larger contributions to such increase came from the private sector.

Foreign direct investments have totaled to US$ 5.382 billion, augmenting by essential 25.4 percent compared to the 2011 level. Economically attractive geopolitical positioning of Azerbaijan with abundant hydrocarbon resources, and high productivity in agriculture, especially in fishery, have served a favorable environment for increasing FDI in-flows. In addition, high technology-based industrial innovation, being introduced into the economy, have ushered increasing foreign direct investment flows inwards.

On its path to the knowledge based and thus sustainable economy, Azerbaijan has all potential in place to regain world's economic heights, once achieved in the past. With robust industrial sector, accounting to 65 percent of GDP in 2012, and agriculture 5 percent, services have increased by 8 percent to 29.5 percent share in GDP. That signaled a considerable shift to the non-oil sector development, aimed at reducing dependability on traditional oil and gas. In view of the above performance in 2012, Azerbaijan's outlook for prospective economic growth in the near and medium term is positive, as the economy's transition to the knowledge based economy is gaining a sustainable pace.

The information and communications technology (ICT) sector has become visible and developed fast. Given the upward dynamics in this sector in Azerbaijan, the member economy of the ECO and a chairing country for year 2012 as well as in most ECO economies, on November 11th 2012, the ECO Secretary General H.E. Dr Shamil Aleskerov in his talk to the UN Under-Secretary-General and Executive Secretary of the UN Economic and Social Commission for Asia and the Pacific Dr Noyleen Heyzer has discussed *among other things* the opportunities on the intensified cooperation between ECO and ESCAP on transport, information and communication technologies where the ICT sector has been acknowledged as having all the necessary potential for establishing practically actionable partnerships. Of special importance in this regard came to be an ongoing collaboration between Committees of ECO and ESCAP on Transport and Communications in pursuit of the provisions of the Memorandum of Understanding between ECO and ESCAP signed back in 1993, on July the 7th, in Istanbul. Along this path, in 2012, the preparations have been started for the 1st High Level ECO Meeting on ITC of Ministers of the involved Member States in compliance with scheduled plans for the subsequent year 2013.

Iran

In 2012, growth in Iran's economy declined to 2.1 percent from 5.8 percent in 2011. Such contraction, by almost half, has been caused by that of world prices on oil. However, strong performance in the manufacturing sector, agriculture, and services has pushed the country's current accounts further up to 13.1 percent of GDP. Moreover, growth has remained stable over the past global crises years at 7 percent, on average. The real GDP per capita has increased to US$ 7,228 augmenting at an average 18 percent over 2009-2012.

Surpluses in the current accounts, even in the face of the global recess in 2008-2009, have shown no sensible negative impact on the economy, in the environment of its isolation from global systemic risks. Owing to this macroeconomic factor, surprising as it may seem, the current accounts and trade balance remained undisturbed by spillover effects of the recent global economic disarray.

Likewise, gross government debt has registered low 12 percent of GDP in the reference year, maintaining a sustainable 9 percent, on average, during the crises years (2008-2009) and, also in post peak period. While signaling the country's self-sufficiency in financing its economic activities, low external debt rates have resulted from the absence of debt obligations to globally bubbled financial markets, had these been incurred by international loaning.

As with certain advantages of the global economic crises for the economy, reverse effects have yet revealed themselves in high inflation and low FDI.

During 2012, the annual consumer price index skyrocketed to 28.6 percent, averaging to 19 percent over the global crises period, 2008-2012. That posed a serious challenge to the economy. At the same time, the country has profited from depreciation of its national currency unit through increased import revenues. In this regard, back in year 2009, imports had increased by 20.6 percent, even though the annual CPI went concurrently up at 38 percent rate. That trend has regained through higher imports.

Reverse to the rising inflation, unemployment fell by 19 percent in 2012 compared to 2011. Yet, during world's grimmest crises period, the annual CPI sustained high at 11 percent rate, on average. Urbanization, leading to creation of extensively overpopulated urban areas, and for that matter, infrastructure, insufficient in providing full employment for internally migrating work force has, over years, been gradually adding to a nourishing environment for the rise in unemployment.

As per the FDI, although its volumes have increased by 13 percent in 2012, their average volume over the past five crises years, including post peak period, has remained below US$ 2.9 billion, mainly in effect of economic sanctions on the economy for over long 30 years.

Despite the hardships associated with economic sanctions on oil and gas sector, the deficit in the country's government budget has balanced at low 0.7 percent in 2012, reflecting an almost 61 percent reduction against the previous year. Over the past five years, the deficit in the gross government budget has averaged to an average 3.3 percent.

In trade, the surplus has reached US$ 81 billion, highest in the region in 2012. Over the period 2008-2012, the trade balance has been kept positive at US$ 41 billion, weighted average.

In intra-regional trade within ECO, trade volumes b/w Iran and the neighboring Turkey reached US$ 20 billion in 2012. With another intra-regional trade partner in close neighborhood, Pakistan, the overall trade volume has dropped by over twofold to register US$ 123 million, only, by the end of 2012.

In energy, oil revenues have traditionally supported over 50 percent of government revenues thereby indicating the central place in the oil and gas sector in Iran's economic setup. In real GDP, it has accounted to 25 percent share.

Production of crude oil during 2012 reached an estimated 3.2 billion barrels of oil. The major share of the overall output went to exports, and gained US$ 118 billion.

Natural gas was produced at 153.3 billion cubic meters, of which 151.8 billion went to domestic consumption. Urban consumption has accounted to 87 percent of the total production in this important energy resource.

On electricity, the yearly production of electricity had reached 233 billion kWh in 2011. Of the total volume, 184.2 billion kWh was consumed domestically. In sum, 9.6 GW generated in energy sector went to intra-regional and inter-regional exports.

In future perspective, Iran plans to exploit its existing capacities, at full, to produce 67GW electricity in the medium term by 2015, according to the five year national plan. From wind, Iran has in plans to generate 6,500MW. Given over 50 percent of electricity production coming from gas (least costly power generation), Iran has taken the lead in the Middle East and the ECO regions not only on production of traditional oil and gas but electricity as well. From the environmental perspective, Iran opts to generate 5,000MW of electricity primarily from renewable energy sources, including from nuclear, in the medium term.

The outlook for near future is positive bearing in mind an internationally balanced view that the economy has been fully self sufficient over the past, even at worst times of the global economic crises. It has profited from sanctions on its oil and gas sector as its quota-based supplies of this important energy resource to external markets have yielded higher prices for oil at global scale. The economic self-sufficiency model, which the country had been following since imposition of economic sanctions, has benefited through the inbred resistance to the shocks spread by global economic and financial downturns. Iran's mutually beneficial trade exchange with world's emerging developing economies in BRICS, UN, ASEAN, MENA, EU, NAM, ECO as well as the country's bilateral economic cooperation with its trading partners has translated into the evenly leveled demand-and-supply driven trade exchange with developing countries, thereby avoiding otherwise inevitable spill-over effects of the global interaction in which supplier economies heavily depend on advanced countries' consumption patterns and selective demand for goods and services.

High rates of Iran's compliance to the MDGs' major standards, particularly, on education, have enabled the country to prepare for prospective re-setting of its non-oil sector onto the knowledge based economic system. In the wake of this important step, the outlook for near future growth of the country is positive.

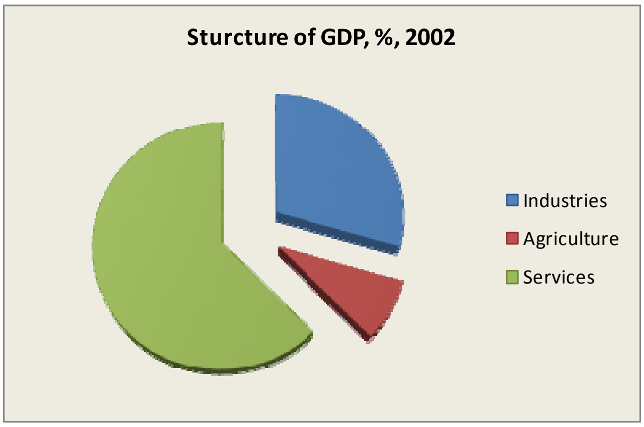
The economy will likely grow at 2.5 percent in 2013 with gradual rise to 3 percent in 2014. The current accounts will further improve and external trade will have soared by 2014, given near future forecast of low supplies of minerals at global markets. An increased focus on rural development would dissipate high unemployment, prevailing in urban areas, through generation of new labor opportunities in prospective rural development by bringing shared prosperity to the people of Iran.

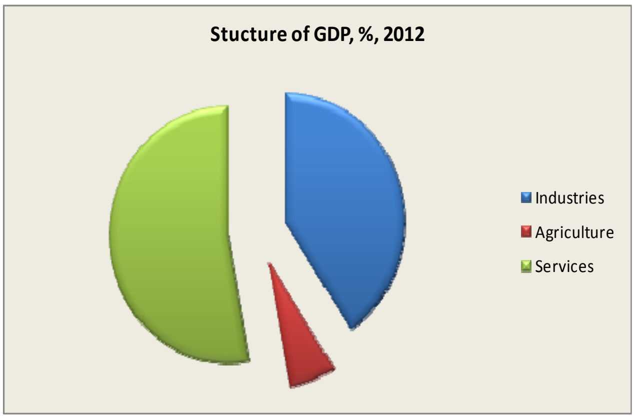
Kazakhstan

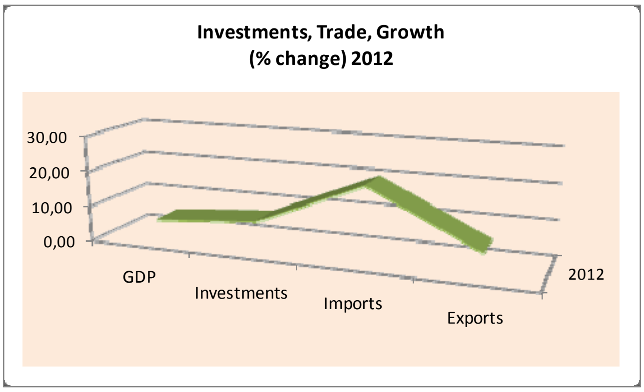
The economy's GDP grew at 5.1 percent rate in 2012 compared to 7.5 percent in the previous year. Back in 2002, the economy had taken on the path towards economic diversification. A decade past, the reality of 2012 has shown the economy as world's upper middle income country. It has acquired a donor country status in international organizations in 2011/2012. Economic achievements have proven significant, especially, in view of the country's small population 16.9 million, high costs in accessing global market outlets, and landlocked restraints of transportation.

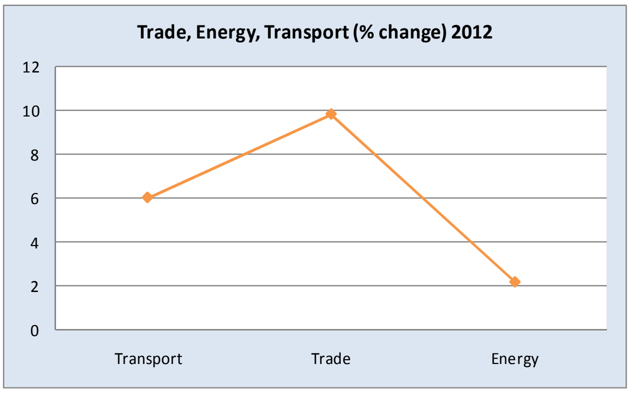
In physical volume, the real GDP reached US$ 201.5 billion. The industrial sector registered 40.7 percent of GDP and services sector has expanded by 5.5 percent to 57 percent of GDP. Agriculture sector has optimized, as in most advanced economies to a single digit. It stood at 5 percent in 2012, from 5.5 percent of GDP in 2011. The share of industries and services have increased by 5.5 and 2.6 percent compared to their respective shares in the structure of GDP in 2010. Such shift has evidenced visible results of the past fast track economic restructuring. Essential increase in industrial and services sectors has marked a historic shift of the economy towards innovative industrial modernization, massive long term infrastructure investments, dynamic private sector services (Table 3).

Table 3: Kazakhstan









In the country's national strategy for 2012-2016, the priority has been set on industries, transport/ communications, energy, trade, agriculture and construction. In aggregate, these priority sectors accounted to 68 percent of the country's GDP, at production side. Most importantly, critical emphasis has been on the value addition of innovative knowledge products in industrial renovation of the economy.

As with the above priorities, the economy has stood on its firm footing in 2012, on the track of economic restructuring towards a more sustainable economic model. At the back of a gradual shift to an innovative, knowledge-based economic base, required for a stage of development as a middle income economy, growth rate in 2012 has eased to 5.1 percent (as mentioned earlier in the report) from 7.5 percent in the previous year. In spite of such a justified slowdown, the per capita real GDP has remained high at US$ 12,007 increasing at 5.7 percent rate compared to its 2011 level.

Partly due to a strong appreciation of the national currency in 2012, imports have increased at 20.2 percent against the previous year level. Purchases of high tech commodities have added to the ongoing process of renovation of manufacturing infrastructure. In the meantime, exports grew at 5 percent against the previous year.

In the same year, higher imports in the 2012 trade balance at US$ 44.539 billion have reduced the current accounts. These registered 4.3 percent of GDP in 2012. Over the past five global crises years, including peak 2008-2009 and post peak period, the current accounts have been kept at stable over 2 percent, on average.

Exports have grown at 5 percent compared to 2011 and reached US$ 92.285 billion. The overall external trade made US$ 136.824 billion and accounted to a significant 67.2 percent of GDP.

One of global crises-driven vulnerabilities of the economy in 2012 has remained its external debt, which persisted during the peak crises years at over an estimated 60 percent of GDP. Even at pre-crises times, such threshold had been viewed as a comfortable threshold for the advanced economies. In 2012, external debt has persisted at double digits. By structure, it has mainly been in ownership of the private sector. Debt restructuring and improvement of the financial sector, of which almost 90 percent has been recorded as private entities, have become the sector's priorities in minimizing external debt obligations. Investments into the real sector economy, as part of economic stabilization package, have been treated as a mandatory measure on the path to near future full macroeconomic stabilization of the real sector economy. In the meantime, the fiscal balance has registered 3 percent in deficit in 2012. Over the past high peak and post-peak global crises years, the deficit persisted at 1.9 percent, on average. To mitigate fiscal post-peak crises consequences, the economy has accumulated sensible investments that stood at an estimated US$ 1.4 billion most of which went to support real sector stabilization.

In transport, Kazakhstan has a central role to play in the ECO region, owing to the Western Europe-Western China Corridor at 2787 kilometers, to run from Chinese borders through territories of Kazakhstan to Russia. The gains for the region from this corridor may be in linking regional economies to the above corridor with the objective of boosting trade exchange through increase in transportation. In addition, Kazakhstan has closely been working with ECO countries during 2012 via the Bandar Abbas-Almaty project on connectivity and the Tehran-Istanbul-Almaty Container/Passenger train project on reducing travel time. The potential of Kazakhstan in transit and transportation is outstanding. The share of transport in the country's GDP has expanded by 6 percent compared to 2011. The overall cargo turnover in 2012 has accounted to 34.8 billion t\km. With increasing external trade volumes, which indicated 9.8 percent rise in 2012 compared to the previous year, the need to further promote easily accessible and cost efficient transportation to international opens sea outlets is common for landlocked countries of ECO.

On energy, the economy has observed 1.6 percent increase on extraction of energy resources and 2.7 percent in electricity generation and in gas supplies. Although, production in energy sector has seen the modest 2.6 percent rise compared to the increase in growth in trade at 9.8 percent and in transport sector at 6 percent (as reflected in the charts of Table 3) nonetheless the departure from traditional orientation on extractive industries, including from mining, has manifested a healthy sign of a well-diversifying economic setup. The country has specified energy efficiency as a major priority in promoting clean energy production. The national program was adopted in 2011 on renewable energy. According to it, the renewable sources of energy have been envisaged for rapid installation by 2020. In particular, 13 wind mills, 4 solar power plants and 14 hydropower plants will have been installed by the above said target year. The total of 1040MW has been set for production within 2012-2020, in implementation of the national program. Most importantly, the economy has taken renewable energy production on as first priority in energy sector. Based on the fact that traditional sources of energy have been one of major sources of the country's revenues over the extensive past, the new set up of the country's energy sector on its path towards a more sustainable and secure energy in the near and medium future, may play an important role in the ECO region in sharing best practices in improving policy support and planning strategies on clean energy through a constructive dialogue amongst ECO high level policy makers.

Table 4: Kazakhstan: Renewable Energy Sources

Column1	Column2	Column3
Type of energy resources	**Projected capacity**	**Planned Installation**
Renewable energy sources	1040MW	
Hydro		14 plants
Wind		13 mills
Solar		4 plants

Sources: National Statistical Office

Economic outlook of the economy is positive for the medium term - for the country to have significantly modernized its economy, based on knowledge, innovative technology and high value added production base, in pursuit of the sustainable, inclusive economic growth.

Kyrgyz Republic

During 2012, production of gold fell dramatically, dragging the overall economic growth down. Subsequently, low performance in the non-gold sector and the nearing closure of one of major sources of budget revenues, Manas Transit Center (projected for 2014) have pushed for the downturn of the economy during 2012.

In a parliamentary democracy, as the Kyrgyz Republic is, the process of building a solid basis for a democratic rule dominated economy had not been easy rather associated with social and political complexities. In annual reports for 2010 and 2011, the prerequisite factors, featuring an evolving downturn in the economy during 2011, have been reflected, in detail. In the year 2012, the measures designed for the full macroeconomic stabilization, have continued in 2011 and throughout 2012, upon having witnessed first early signs of gradual economic recovery, including in banking. The legal code for banks has been drafted and submitted for parliamentary oversight. The rule of law has not only been prioritized in the economy, but closely followed against delivery. The process of consolidating property rights has continued throughout 2012 as a gateway to a prospectively vibrant private sector, to serve the backbone to the open market economy in its steering further consolidation of ongoing economic reforms.

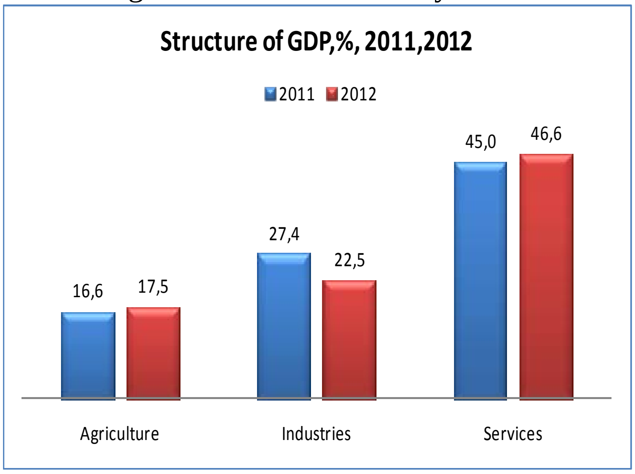
While institutional and regulatory works have continued in 2012, growth in the economy has been slipping further down to -0.9 percent from 6.0 percent in 2011. The overall volume of real GDP registered US$ 6.473 billion. Growth in agriculture rose by 5.4 percent compared to 2011 and registered 17.5 percent share of GDP, one of the highest in the ECO region. Accordingly, the services rose to 46.6 percent of GDP, increasing by 3.5 percent compared to their plank in 2011. The industrial sector fell by 17.8 percent down to the 22.5 percent share of GDP. In spite of the smaller size of the Kyrgyz Republic economy (its GDP is only 0.3 share of that of the region) relative to other ECO regional economies, its real GDP per capita accounted to 2 percent of aggregate per capita in the region.

As reflected in charts below, the macroeconomic satiation of the Kyrgyz economy in 2012 has been grim. Deceleration in the country's current accounts has been significant to -22.1 percent from – 6.1 percent in 2011. Similarly, the government budget faced a deficit of 6.6 percent of GDP from 4.8 percent in 2011. External debt rose to a whopping 84.7 percent of GDP (highest in the region) from 66.3 percent in 2011. Reversely, the FDI inflows have declined twofold in 2012 from their US$ 694 million volume in 2011. The per capita real GDP has increased by 3.2 percent in 2012 against 2011, to register US$ 1,160 in the reported year. The latter however has sustained at higher levels compared to those countries of the region whose economies were not in recess in 2012. In sum, given the performance of the country on major macroeconomic parameters during 2012, the overall macroeconomic situation has worsened, downgrading the economy as one with lowest growth amongst ECO economies in 2012.

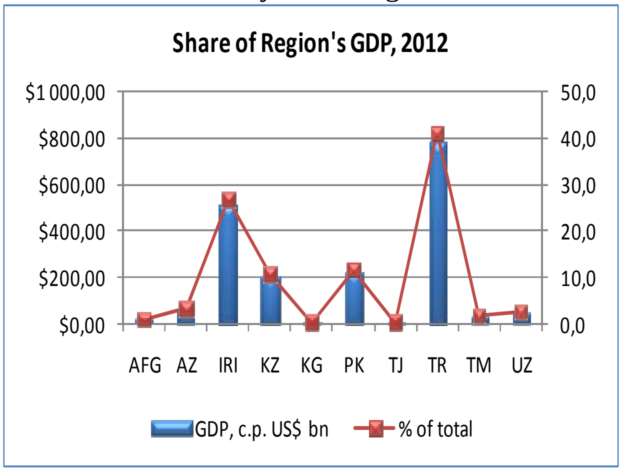
Still, the combination of coherence and persistence in government led measures on fiscal consolidation has resulted in dramatic curtailing of the consumer price index. This has resulted in the improved low 2.7 percent inflation rate (down from 16.5 percent in 2011), one of healthiest in the region. That stood far below the regional average of 8 percent. One other encouraging sign in the economy for the reference period has been its low unemployment rate at 2.4 percent, lowest in the region, after Uzbekistan. For macroeconomic indicators in 2012, please see charts in Table 5.

Table 5: Kyrgyz Republic

Share of agriculture in the economy

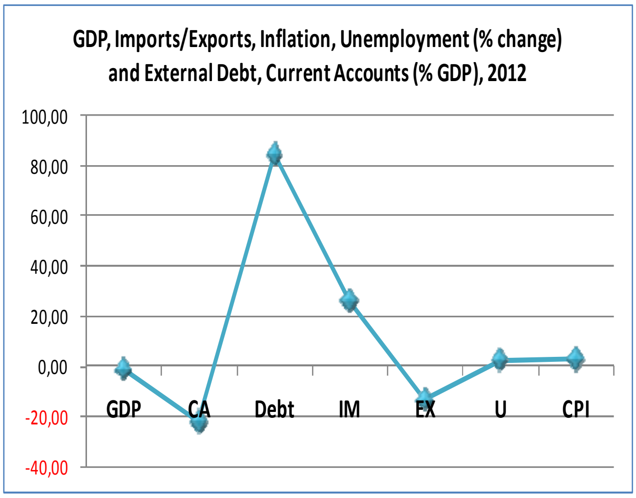


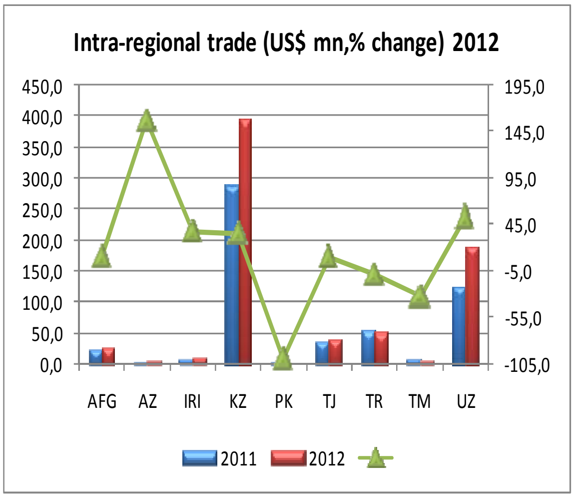
Share of the economy in the region's GDP



Selected Macroeconomic Indicators, 2012, in % change and % GDP

Notes: CA – current accounts, U – annual unemployment rate, Debt – External debt to GDP, CPI – annual average inflation, IM – imports, EX – exports.





Transport		**Energy**	
Roads	974 km rehabilitated.	**Energy**	US$ 45 million donor support has resulted in visible improvement of electricity systems, open for regional integration within ECO. High level inter-government legal framework for such integration has been in place.

As evident from above charts, in external trade, imports have grown at 26.2 percent while at the same time exports contracted by 13.1 percent against 27.7 percent in 2011.

Intra-regional trade of the Kyrgyz Republic with ECO has been varied. Trade exchange with Azerbaijan increased threefold whilst with Pakistan contracted twofold. Trade also reduced with Turkmenistan and Turkey by 7.9 and 31.6 percent, accordingly. Reversely, that with Uzbekistan increased by 52.8 percent, Iran 37.1 percent, Kazakhstan 36.2, Afghanistan 9.8 and Tajikistan 9.4 percent.

On transport, 974 kilometers of the Kyrgyz segment of regional transport corridors have been rehabilitated in 2012 in spite of economic hardships. Such step has reduced transport costs and travel time on the Kyrgyz territory.

On energy, power sector rehabilitation of generation, transmission, and distribution facilities, has become the core focus in economic activities during 2012. With US$45 million support of international donors that have resulted in re-acceleration of electricity production, the country has been prepared to assume a decisive role in integrating the regional electricity market. Agreements on inter-government cooperation on electricity markets with neighboring Kazakhstan, Uzbekistan, Tajikistan and Uzbekistan have already been in place at high government level. The policy of inclusive economic development, with an eye on the economy's 'exclusive economic advantages gains at regional scale, has been seen as a central focus for the Kyrgyz Republic in the medium term.

The above reflected improvements and the revisited national economic policy have paved way to the prospective economic recovery in 2013, 2014, and in the medium term.

As with the anticipated upward recovery of the economy, due by 2014, the economy has fully been prepared to extensively share its experience within the ECO framework, especially on one relating to its path towards the rule of law. The module of cooperation in ECO through ECO Parliamentary Assembly, especially in drawing the focus of the region to the economic dimension of regional democratic development, inclusive of the Millennium Development Goals and parliamentary oversight over consolidation of economic stabilization in ECO countries may be useful in the years ahead.

Pakistan

The third largest in the ECO region, Pakistan's economy grew at 3.7 percent of GDP in 2012 against 3.0 percent in 2011. Such increase was partly due to the 18 percent increase in net worker remittances to US$ 13.2 billion, according to World Bank. The real GDP per capita has increased to US$ 1,294 from US$ 1,258 in 2011. The overall volume of GDP at current prices reached US$ 233.1 billion.

The share of industries has expanded by 0.3 percent to reach 25.4 percent in the overall structure of GDP. The services rose to 53.5 percent share, increasing at 0.1 percent rate compared to the plank in 2011. The agriculture sector has increased by 1.4 percent to 21.5 percent of GDP compared to 2011 (Table 6). In the wake of elections expected by mid 2013, the economy has been observed in 2012 to be strengthening against potential market volatility concurrent to pre-electoral campaigning.

Table 6. Structure of GDP

	Sectors	2011	2012
By sector structure of GDP,%	Agriculture	21.2	21.5
	Industries	25.5	25.4
	Services	53.4	53.5

Source: ECO Statistical Network

Gross government debt has declined to 55.6 percent of GDP from 56.1 percent in the previous year. However, the average gross government debt level, over the past five years, including the peak crises years, remained at 56 percent, high above the regional average for 2012. On the international arena, the overall external debt has declined in 2012 to 26 percent of GDP from 27.2 in 2011. One of major challenges faced by the economy in the reference year, apart from fiscal insufficiencies and high debt, came to be the high rate of inflation. The average consumer price index marked 9.7 percent by the year end in 2012, decreasing from 11.9 percent in 2011. Yet, that has remained above the regional average in the past five years.

Owing to globally low commodity prices in 2012 and lower export volumes, the economy's current accounts have declined to 2.0 percent deficit from 0.1 percent surplus in 2011. In trade, Pakistan's imports rose to US$ 40.1 billion from US$ 35.9 billion in 2011. Exports however shrank to US$ 24.7 billion from US$ 25.4 billion in 2011.

Stable but low pace of economic development in Pakistan during 2012 has staged a modest attraction to foreign investments. Thus, US$854 million in FDI have in-flowed into the economy. The latter constituted yet a modest level for the big size of the economy such as Pakistan. In 2011, the FDI was by 34.7 percent higher but still low in physical volumes at US$1.3 billion. Over the past five years, including peak global crises period and post peak recovery, the FDI volumes had remained at below US$3 billion (Table 7).

Table 7. Pakistan

	Selected Macroeconomic Indicators, 2012			
GDP, c. p. US$ billion	**Per capita GDP US$**	**External Debt (% GDP)**	**Current Accounts (% GDP)**	**CPI**
233.8	1,294	26.0	(2)	9.7
	2012			
Exports (% change)	**Imports (% change)**	**FDI (% GDP)**	**Unemployment (annual average)**	**GDP (% change)**
(24.7)	40.1	0.12	6.0	3.7

Source: ECO Statistical Network

An encouraging sign of future prospective growth in the economy is associated with its vibrant work force emerging from 178 million population that has increased at 2.1 percent rate in 2012 at the back of relatively lower unemployment, registering an average 5 percent over the past five years, including peak global crises years 2008-2009 and post peak consolidation.

Energy sector has been first priority for Pakistan's economy, a net importer of energy resources. One of the main factors contributing to moderate economic performance of the economy in 2012, have been energy shortages. Reduction in the country's energy production volumes, on the account of power shortages, has been estimated at 2.0 percent of GDP, in overall. Added to this, price fluctuations at global markets for fossil fuels and electricity have directly impacted the economy. Under the assumption that fossil fuel prices tend to rise with the passage of time, in the environment of much tightened market competition for energy resources, growth in the economy is likely to remain modest in the near to medium term, lest the regionally beneficial trade exchange on energy is well in place.

In the meantime, the demand for energy in the country has been growing at an average 9.0 percent, annually, during 2009-2012. Local supplies of domestically produced energy have come from nuclear, hydro, and thermal power sources in 2012. The country's national strategy has focused on harnessing huge coal resources, available in the economy, for electric power generation. Over the period 2011-2015, growth in the capacity of hydro and coal based power generating facilities in the country has been estimated at 9.4 percent rate on a year to year basis. With such estimates at hand, the economy is capable of generating up to 27000 MW by 2015.

As of 2012, production of shortage-prone electricity by the country's five nuclear plants, of which three are operational, has reached 3,597 million kWh in the reference year. The overall production capacity in the country stood at 19,252MW in the same year. However, projections for the demand in electric power are for this globally inexpensive energy source to reach 32704 MW by 2015 and 48843 MW by 2020.

Against rapidly increasing domestic demand for energy, operational capacity of 13 hydroelectric facilities has been estimated at 6,481MW. Huge share of the output production of these installations, namely 99 percent of total, has been consumed by the industrial sector alone in 2012.

To support the rising demand for electricity, Pakistan had foreseen national programmes for installation of renewable/alternative energy sources as in Table 8 below:

Table 8: Pakistan

Type	Present Status	Target 2011-15	Target 2016-20
Micro-hydro power Plants in Gilgit Baltistan, AJK & Khyber Pakhtoon Khah and Canal-falls	485 units generating 8 MW (electrifying 70,000 houses)	5 MW (electrifying 25000 houses)	20 MW (electrifying 100,000 houses)
Biogas Plants Cooking, lighting Irrigation and power generation	4000 units. Producing 18000 M^3/day	50,000 units. Producing 0.300 million M^3/day	50,000 units. Producing 0.300 million M^3/day
Solar Water Heaters Manufacturing through private sector with PCRET Technical services	Designed & developed 05 different models of SWH for commercialization.	10,000 units (125-260 liters each)	25000 units 125-260 liters/day

Sourced: Ministry of Finance, Revenue, Economic Affairs, Statistics, Pakistan

Of fossil fuel consumed in 2012, 68 percent have been imported and 31 percent extracted locally. Consumption of this commodity, in view of its high trading costs, has been declining. As an example, in 2011, it fell to 18.8 million from 19.1 million tons in 2010. That has indicated early signs of a shift of the economy to a new consumption pattern, which favored alternative/renewable recourses. Potential in generation of the latter, especially, for ocean tidal power, solar and wind energy is locally abundant. Thus, wind power estimates stand at 20,000MW, hydropower potential at another untapped 40,000 MW, and 24,822 MW of thermal power. Utilizing this huge potential, which is capable of addressing the economy's domestic demand for energy, would be possible, among other options, through intra-regional integration of collective efforts of member economies, to be pulled together in immediate future. In this regard, the demand for energy has been growing at 2.1 percent, annually, over the past five years.

Given urgent demand of the economy for energy sources, the market *niche* may be filled in by ECO trading partners, at great ease. The neighboring energy well-off Iran, Turkmenistan, Uzbekistan may reach out to Pakistan for trade at low transport cost. In spite of lucrative trade opportunities at cross border trade, the real time volumes of intra-regional trade with ECO countries have reduced in 2012. In the same year, intra-regional trade with ECO has, in fact, declined by 16 percent compared to 2011. Consequently, the overall volumes of external trade with ECO economies has registered a modest 4.1 percent increase compared to 5.2 percent in 2011 (chart 10).

Chart 10. Pakistan: Trade

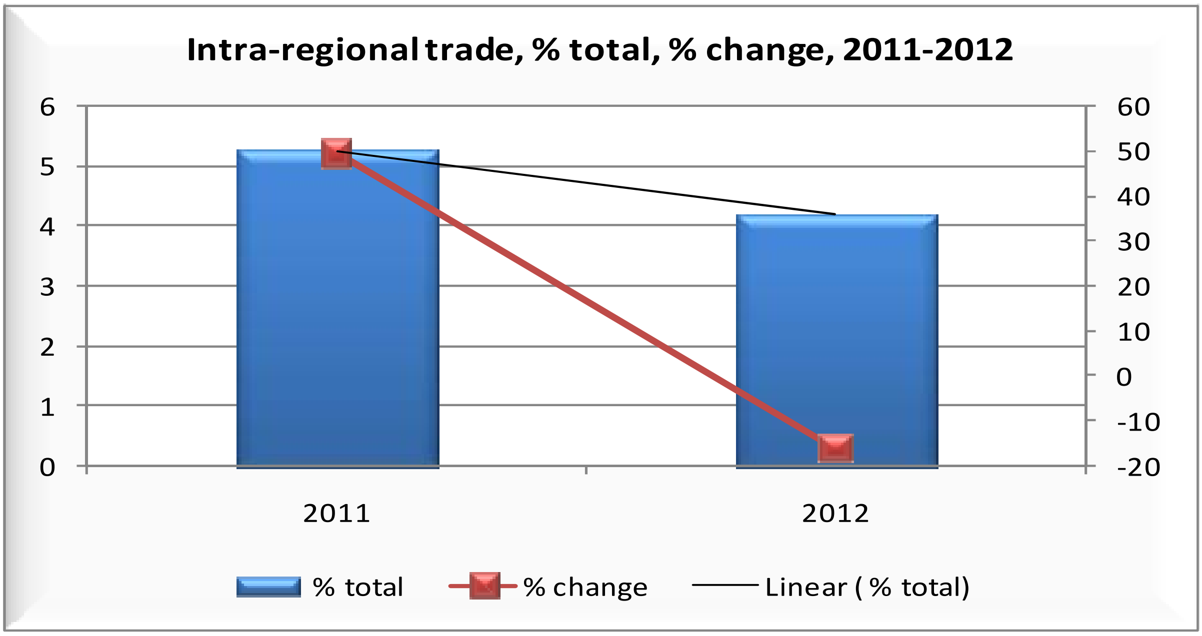
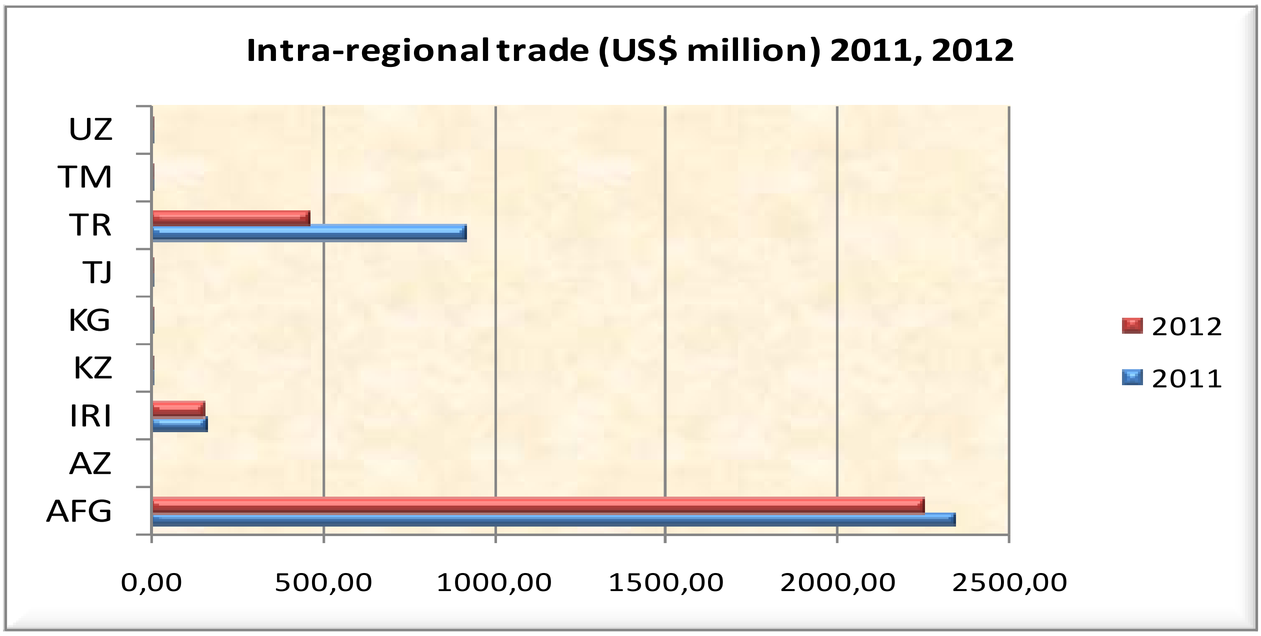


Chart 11. Pakistan: Intra-regional trade with ECO



Sources for charts 10-11: ECO Statistical Network

Tajikistan

Tajikistan is one of the smallest economies in the region. In 2012, its performance has been strongly supported by remittances, as in the past. The real GDP grew at 7.5 percent compared to 2011. Due to the small size of the economy, it has been capable of adjusting itself to the changing economic realities of neighboring larger economies as Russia, the main source of remittances. Tajikistan's economy heavily relies on remittances and commodity imports, and has, so far, not largely diversified its export base in high valued added commodities, other than traditional aluminum and cotton of which production has been confined within 14.4 percent industrial sector share in GDP.

The global environment of lower prices for food and fuels has balanced the country's inflation off to a single digit, 6 percent annual. However, a sudden upward trend, closer to the end of year 2012, for global food prices to rise, have halted inflation from a further descend.

With the country's minimal exposure to comparative economic gains from international markets on export side, the economy is bound to find internal sources of fiscal consolidation, such as improvement of revenue collection and expenditures rationalization. As a result of taking on such measures by government in previous years, the fiscal balance has considerably improved towards the end of 2012. In addition, the new tax code was introduced to mainstream tax collection and administration, as a source of budget revenues. Another no less effective measure in consolidating the fiscal position of the economy has been introduction of the dividends policy into operation of state owned enterprises so that those could in-cash individual pays-in at time when they are most needed for businesses to then re-pay them back to stockholders as dividends at a later stage, when full recovery of the economy from global economic distress gradually comes into effect.

As one of the uneasy factors, the fiscal balance has been burdened by losses in the country's state owned banks and public enterprises due to lack of appropriate market oriented fiscal oversight. With little of external capital inflows into the country's current accounts in 2012, the latter has nevertheless observed a deficit of 1.3 percent of GDP.

For another, lack of regular international air communication, among factors hindering mass investments into the economy, has for years kept potential businesses afar from creating useful business networks inside the country.

Moreover, the country's external debt stood at over 30 percent of GDP in 2012 and has as well been unattractively high in the past global economic crises years, dampening the business climate and warding new job creation opportunities off. Thus, the perspectives of landlocked transportation have added to potential risks of carrying business on in Tajikistan.

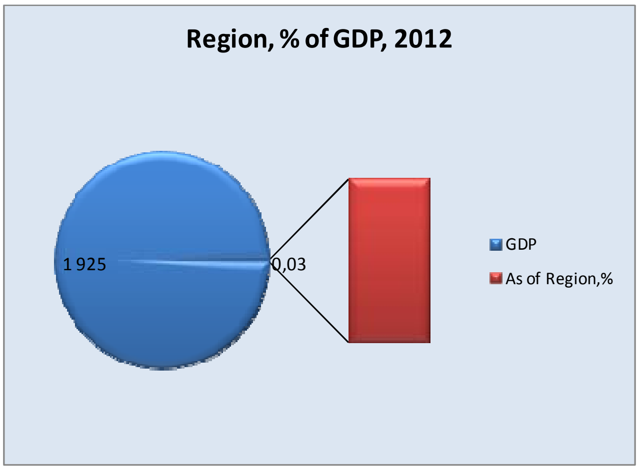
Government guarantees for foreign investments could have spurred economic activities in the country even in the face of above listed conspicuous constraints. However, financial institutions have been risk averse to issue such guarantees, given the depleting international reserves and weak growth in domestic market based instruments, to be financed by government securities.

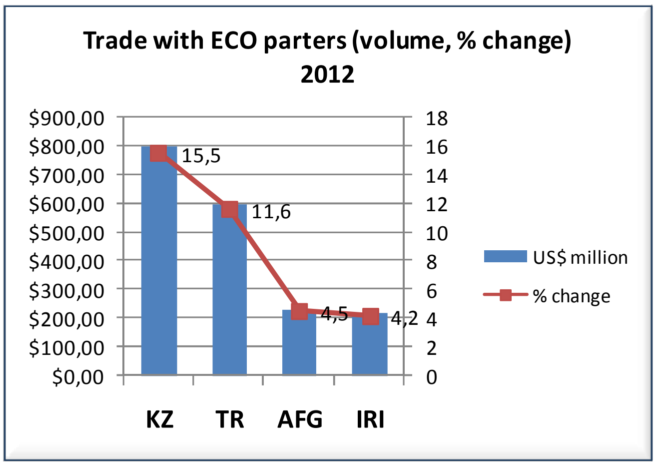
As one of the back-up measures to curb depletion of international reserves, the government has started the process of conversion of non-monetary gold into reserve assets during 2012, to serve as a buffer for investment inflows. In short, investments have poised urgency for the economy over the past global economic crises period, including post peak years 2010-2012, to be able to sustain once obtained high economic growth in 2012 for the medium and long terms as well.

In spite of hardships faced by the country during 2012 in mitigating the risks associated with the fiscal position of the economy, trade balance has been negative at the back of the increased imports. The total external trade volumes of Tajikistan in 2012 have reached US$ 5.137 billion, indicating 15 percent increase compared to 2011. On the account of higher imports, entailing from lower global prices for major commodities, including aluminum, Tajikistan's trade deficit registered US$ 2.4 billion. In bulk, compared to 2011, imports have accordingly increased by 17 percent and exports by 8 percent. Thus, imports made 3.7 billion and exports 1.3 billion in US dollar value. Among Tajikistan's trading partners in 2012, Kazakhstan has traded at US$ 799 million, Turkey US$ 600 million, Afghanistan US$ 232 million and Iran US$ 217 million, accounting to 15.5, 11.6, 4.5 and 4.2 percent in the structure of Tajikistan's overall intra-regional trade with ECO countries (Table 9).

Table 9: Tajikistan

Selected Macroeconomic Indicators, 2012





Transport

Reconstruction of 224 km of automobile roads have been completed.

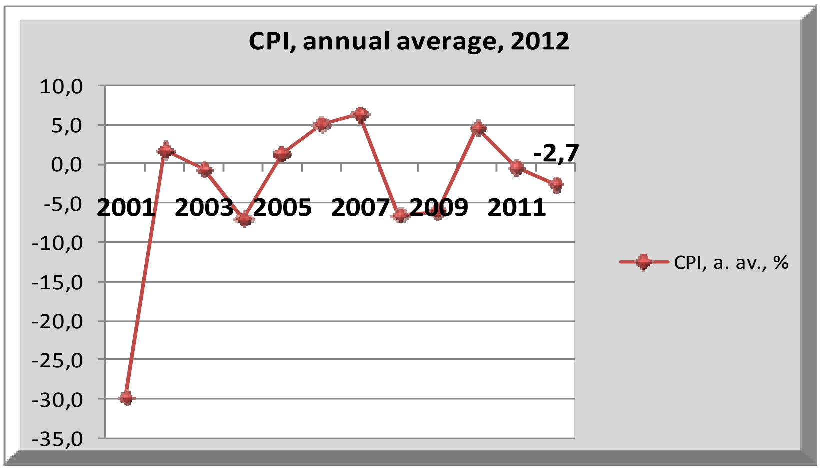
Construction of 74 bridges has been completed.
For 2014, rehabilitation of highways and construction of bridges and tunnels are foreseen for implementation

Energy

Talco Energy Efficiency Audit covers only 40% percent of energy efficient outlets.
Adoption in 2012 of five year National Program on Effective Use of Hydropower Resources in 2012-2016 and the Law on Renewable Energy Recourses constitute a legally open base for ECO countries to step up regional integration of electricity

under 18 international investment projects.

markets. By March 2013, the economy will additionally generate up to 930 million kWh electricity.
In total, 17 billion kWh have been generated in 2012. Generation capacity has been at 527 billion kWh.
Construction of Khodja Aini and Sangtuda-2-Sarband has been completed in 2012.



Trade diversification in Tajikistan’s traded goods and services has been reflected in the 108 percent increase in precious metals versus only 11 percent increase in traditionally traded textiles. Imports reflected gradually increasing consumer income in purchases of vehicles that rose at 102 percent rate against 2011. Reversely, imports of natural gas volumes have contracted by one fourth compared to the 2011 imports of 133 million cubic meters, indicating increasing domestic production capacities.

On energy, the economy has not underestimated its existing potential in hydrocarbons. In 2012, 156 wells have been registered. Of this number, 145 contained those on oil reserves and 11 on natural gas. By the end of 2012, production of crude oil reached 29.9 thousand tons and 11.2 million cubic meters of natural gas.

On electricity, over 305 hydroelectric power plants have been registered but only 202 have turned out operational in 2012. In overall, an estimated US$2.9 billion investment has been foreseen by the government in cooperation with international partners for implementation of the national energy security and efficiency program within 20012-2016.

On transport, the economy has been active in a number of regional and international transport corridor projects during 2012. With small size of Tajikistan’s economy at US$ 6.9 billion of GDP, it has over the past been extensively reliant on donor support, including in construction of transport routes. Even in the face of small sized low income economic performance, the country has been able to mobilize its budget for rehabilitation of 224 km of automobile roads which was completed in 2012. Likewise, construction of 74 bridges was also finalized in 2012. Construction of tunnel roads, bridges and rehabilitation of highways is ongoing under the country’s 18 investment projects, in total.

Outlook: growth in 2013 and 2014 is likely to increase by two percentage points. Given slow but upward future growth in neighboring largest economic giants, Iran and Russia, Tajikistan has sufficient capacity for prospective higher economic growth. With the aim to reduce the country's vulnerability to external factors, in the absence of sustainable international reserves and dependence on proceeds from non-diversified exports, Tajikistan has geared to commercialization of financial institutions, banks for the most part. The measure has been meant to loosen the constraints imposed on banks in their financial support to low profit small and medium sized private enterprises. That will supposedly help foster sound competitiveness in local businesses in the medium term perspective. By then, the economy will face a need to increase its capital investments. These in 2012 have declined by 24 percent, partly due to hindrances in the way of foreign direct investments. For another, operating capital of previously made huge capital investments in the economy has not reached the pay-back period by the end of 2012 yet. Most of long term capital investments had foreseen the return on capital to materialize by 2015. Therefore, the momentum will come for the economy in 2013 and in 2014, to generate investment capital from inside the economy. For that matter, the number of industrial businesses in the country has increased by 39 percent compared to 2011. These registered 215,000 SMEs capable of boosting industrial output. In addition, 100 new manufacturing units have been put into operation in 2012. The golden deposits, 156 in total, have been geared to extract up to 5 tons per annum by 2015. During 2012, 2.4 tones has been exported by 8 gold extracting plants of the country.

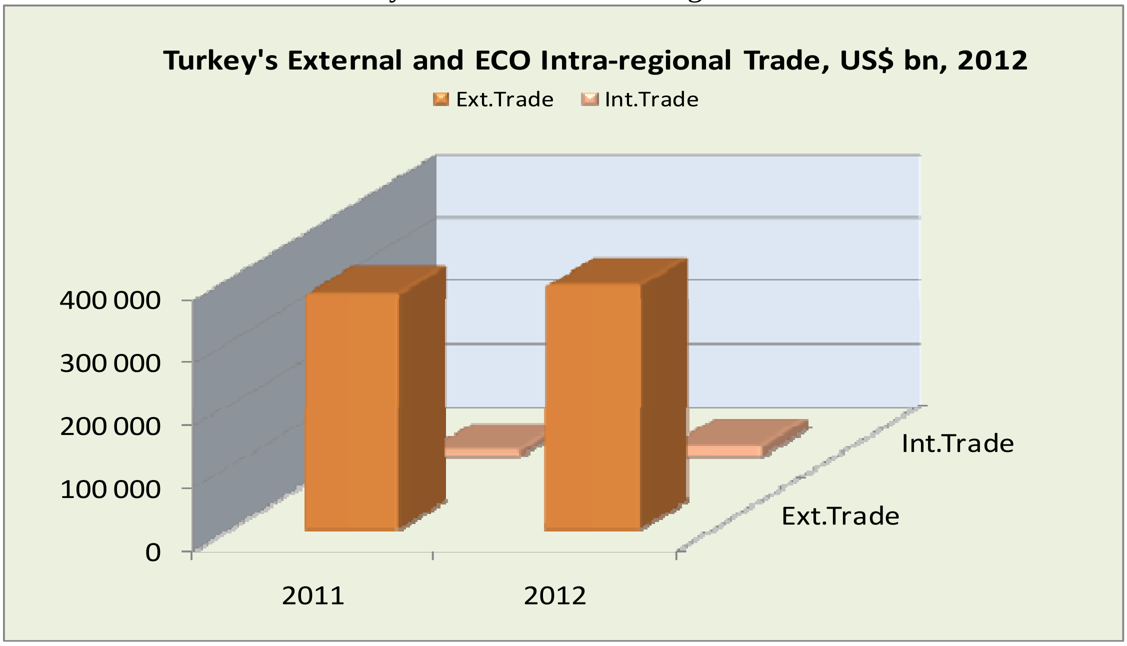
In addition to long term investment projects operated in Tajikistan by Canada, China, UK and Iran, construction works for a new metallurgical plant have been started in 2012. Moreover, 70 raw cotton factories will continue delivering on mass exports of raw cotton at an annual capacity of 1.5 million tons per annum. Added to this, the 3.4 percent shift in the structure of economy towards the services sector which reached 50.7 percent share of GDP in 2012 has signaled a gradual departure from heavy reliance on agriculture. Still, the agricultural sector marked 23.3 percent share of GDP. The above capacities inside the country in its industrial sector, services, and agriculture seem to be sufficient for sustaining the already high growth rate achieved in 2012. These would help step up a sustainable 7.7 percent in 2013 and 2014.

Turkey

The role of Turkey in the regional economic development of ECO is central. This is justified by many factors. One of them is Turkey's lead in regional trade that has accounted to 43 percent of ECO' gross external trade volumes. During 2012, Turkey has significantly increased its trading within ECO. One of tangible steps along this path has been the doubling in growth of trade exchange with Iran within ECO framework.

Turkey's key role in ECO trade had evolved from the country's strong economic footing amongst world's large economies. In the European zone, Turkey has recorded third largest in size of GDP in 2012, first in ECO. It was recorded 16th largest in world economy in 2011. The country's 2011 exports have soared at 13.1 percent, promoting the economy's position to world's 2nd largest trader. At the back of strong performance in 2011, Turkey has, however, encountered a slowdown in its real GDP's growth in 2012 to 2.2 from 8.8 percent in 2011. One of the major factors contributing to such setback in the economy has been recess in economies of the European Union. In addition, economic distress in Turkey's partner countries in Europe, has not only further aggravated during 2012 but has continued expanding throughout the same year in its spillover impact onto performance of Turkey as well as other EU-partnered countries, particularly, in the financial sector. To this end, the GDP of the EU fell to 0.8 percent below zero growth. One of the concurrent factors that impacted Turkey's economic standing in 2012 has been the continuous process of alignment to much higher economic standards set for Turkey, in its newly upgraded economic ranking that required a much higher value added, high tech, and increased environmental responsibilities. That factor has added to a temporary slowdown in the economy's growth during 2012. For another, in the wake of upcoming three multiple level elections, which will have carried on through mid-2015, Turkey's economic performance in 2012 has largely been shaped in the light of the above layout in expectations.

Chart 12. Turkey's external and intra-regional trade in ECO



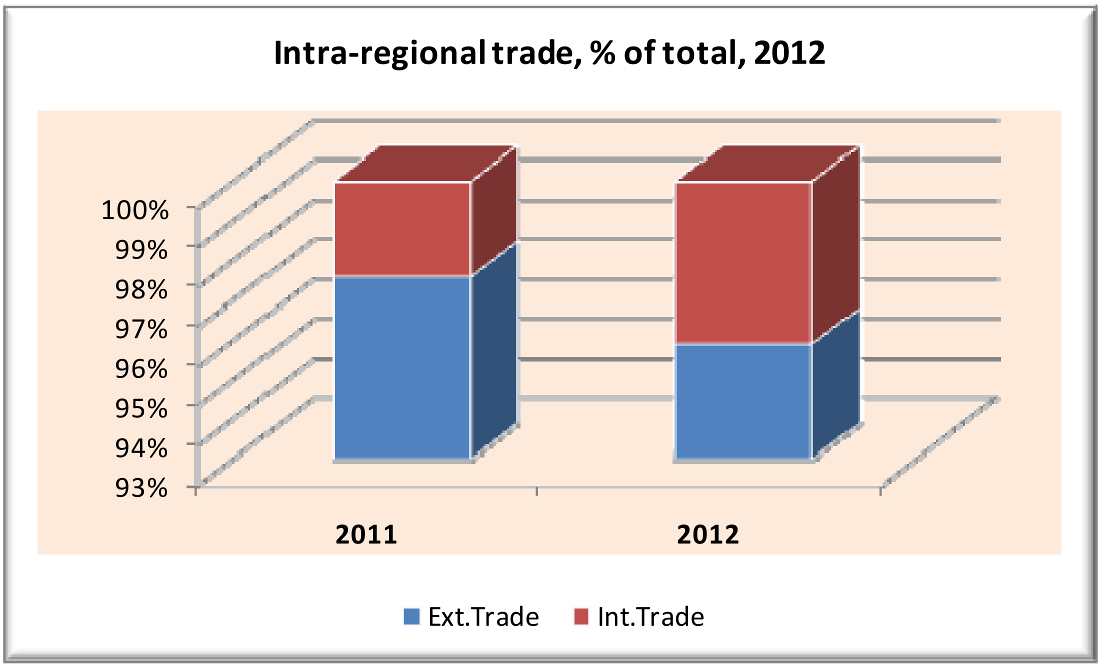
Source: ECO Statistical Network

Notwithstanding grim external macroeconomic factors that have adversely influenced Turkey's economic performance during 2012, the government has skillfully steered the social standing of the country towards more sustainable living standards. Thus, the real GDP per capita rose to US$ 10,497 against US$ 10,605 in 2011 in spite of structural complexities faced during 2012.

On macroeconomics, the overall volume of real GDP reached US$ 789.2 billion accounting to 41 percent in gross GDP volume of the region. During 2012, the share of industries in the structure of Turkey's GDP has reduced by 2 percent to register 27.2 percent of GDP compared to 2011. Services have contracted by 1.9 percent to settle down at 63 percent. The share of agriculture has surprisingly increased during 2012 up to 9.3 percent of GDP. That indicated an increase in food processing, given globally low prices for primary raw agriculture commodities in the regional market.

As graphed in chart 12 above, Turkey's external trade reached US$ 389.0 billion of which 4.2 percent accounted to intra-regional trade with ECO (chart 13). The overall external trade volumes have increased by 3.5 percent. Significant increase in intra-regional trade flows in ECO to US$ 16.5 billion has marked a 78.1 percent increase in trading with ECO, compared to 2011.

Chart 13: Turkey's intra-regional trade in 2012



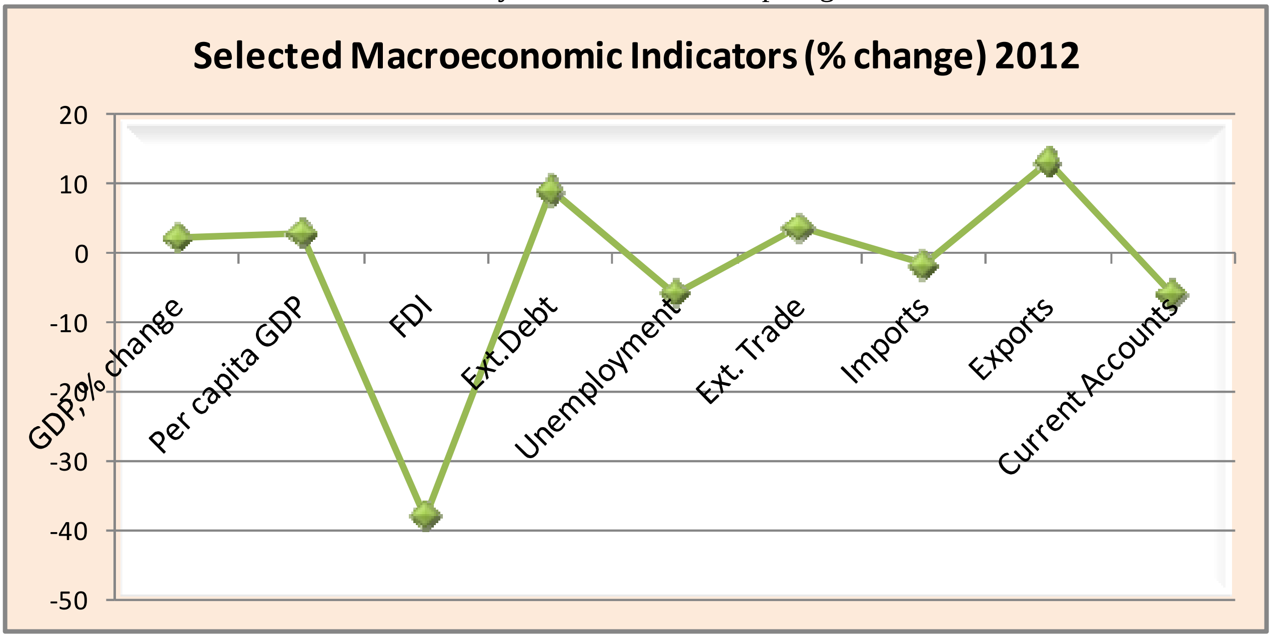
Source: ECO Statistical Network

Turkey's economic partners' failure to offset their liabilities on most pressing clauses of Turkey's current accounts has increased vulnerability of the economy against external capital risks. Yet, the current accounts showed a healthy, although slow, increase in its levels to 6 percent of GDP, compared to 2011 levels. On the other side of the spectrum, re-assessment of systemic risks, associated with capital assets in world's most advanced and rapidly developing economies, has added to somewhat lower than expected performance on Turkey's current accounts during 2012.

Added to this, foreign direct investments fell to US$8.4 billion from US$18.6 billion in 2011. The reasons to such temporary contraction in FDI have stemmed, in part, from the re-set in FDI targets in some of world's advanced economies from commodities to gold. Luckily, the government debt has contracted to 36.5 percent of GDP in 2012 vs. 39.2 percent in 2011. Lower public debt levels have helped solidify investor confidence inside the economy as well as outside it (chart 14).

Inflation posed a serious challenge. The consumer price index rose to 8.9 percent in the second half of the reference year (the year end CPI recorded 6.1 percent though) from 6.5 percent in 2011. That has caused a strong appreciation of the national currency against world's major currencies. Rising inflation has dragged higher unemployment of which the annual rate rose to 9.2 percent from 9.7 percent in 2011.

Chart 14: Turkey's macroeconomic spotlights in 2012



Source: ECO Statistical Network

In energy, similar to a large ECO partner economy, Pakistan, Turkey largely imports fossil fuels. In 2012, crude oil reserves have been registered at 43.3 million tons and natural gas at 6.9 billion cubic meters. As with Turkey's population at over 75 million, the overall demand for petroleum increased by 6.4 percent in the reported year, reaching 119 million tons equivalent petroleum in volumes demanded.

The forecast for future growth in the increasing demand has been estimated at 218 million tons equivalent petroleum by the year 2023, almost double the amount in demand during 2012. To meet the needs of the increasing future consumption, the focus of Turkey's national economic strategy on energy efficiency has foreseen 30 percent of future energy supplies to come from renewable sources, the remaining 35 percent from coal, 30 percent from natural gas, and 5 percent from nuclear power (Table 10). The target on clean energy has, in particular, been set on methane capturing from coal reserves, among other technologies.

The hydroelectric power potential of Turkey stood at 140 billion kWh in 2012. In practice, the total of 239.800GW electricity has been generated in 2012 but consumption of this important renewable marked 241.947 GW, leaving 2.1GW short of production. Therefore, Turkey has a strong interest in intra-regional energy cooperation in ECO, to promote private investments in new hydroelectric energy projects, including in construction of small hydropower plants. Already in 2012, the share of the private sector in hydropower generation rose to 61 percent in the economy.

Consumption of natural gas has made 45.2 billion cubic meters in 2012. Nearly half of consumption went to electricity production. Oil & gas explorations have ever been costly. Thus, an estimated US$ 610 million has been expensed in 2012 for exploration works, only. Transit and storage capacities of Turkey, as a sea harbor, have for all times been effectively utilized, given that 72 percent of world's oil and gas trespasses through Turkey's territory. In the Tehran Declaration-2009, the stakeholders welcomed the proposal offered to all ECO member states to actively utilize storage facilities in ECO regional sea ports, including Istanbul (Turkey), Chabahar (Iran), and Gwadar (Pakistan) for diverse types of tradable commodities, including tradable energy products. The opportunities in the regional energy sector for ECO economies are enormous, given the global scale of the existing energy potentials in the regional countries.

Table 10: Turkey: Energy: ECO regional market opportunities

Commodities	Potential available	Generated in 2012	Consumed in 2012	Forecast for demand by 2023	Available for ECO trade exchange market
Crude oil	43.3 million tons	Imported	Imported	218 million tons	119 million tons
Natural gas	6.9 billion cubic meters		45.2 billion cubic meters	6 % a. increase	(38.3) billion cubic meters
Hydro-power	140 billion kWh	239.800GW	241.947 GW	7 % a. increase	(2.147)GW

Source: ECO Statistical Network

In transport, Turkey has achieved significant milestones. The sector has provided employment to 1.3 million people over the reported year. In 2012, the country's railway network registered 12,000 kilometers, in total. The perspective in this sector is to expand further to 25,940 kilometers by 2023, by almost twofold, at the back of projected investments of US$60 billion in the sector. Considerable increases in the share of the railway sector in GDP from 2 to 10 percent have been planned in passenger transportation and in freight from 5 to 20 percent in 2012 (Table 11).

A breakthrough achievement has been reached in 2012 in linking the continents of Asia with Europe through the Eurasia Tunnel, the rail tube tunnel under Bosphorus. Construction works along this Istanbul Strait Road Tube Crossing have been progressing gradually throughout 2012, expanding the works further into a large scale Marmaray project. In sum, investments in the transport sector during 2012 have totaled to US$ 7 billion.

Turkey's naval trade fleet, 15th largest in the world, at 22.5 million deadweight tons, has contributed US$ 1.2 billion in exports to the country's GDP. The latter has exceeded US$ 789 billion in overall volume in 2012.

Table 11: Turkey: Transport related activities in 2012 and a market *niche* for ECO to fill in

Transport Type	Employed in 2012	Constructed	Invested	Projected investment	Forecast for demand by 2023	Available for ECO trade in services market
Rail	1.3 million people	12,000 km	US$ 7 billion	US$ 61 billion	25,940 km	2% to 10 % share of passenger transportation in transport sector
Underwater		Asia-Europe				

Rail	link					
Naval Fleet (22.5 million deadweight tons)	Transported goods worth of US $ 1.5 billion					

Source: ECO Statistical Network

With the above reflected potential in the economy during 2012, Turkey is looking forward to approximate its full exit from the spillovers of the post peak global economic and financial crises in the medium term span. The near future however may be entangled with complexities associated with slow recovery in most of the economies of the European zone.

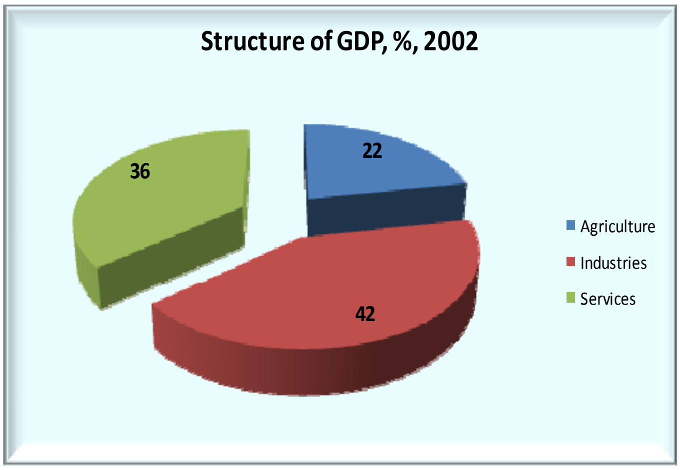
Turkmenistan

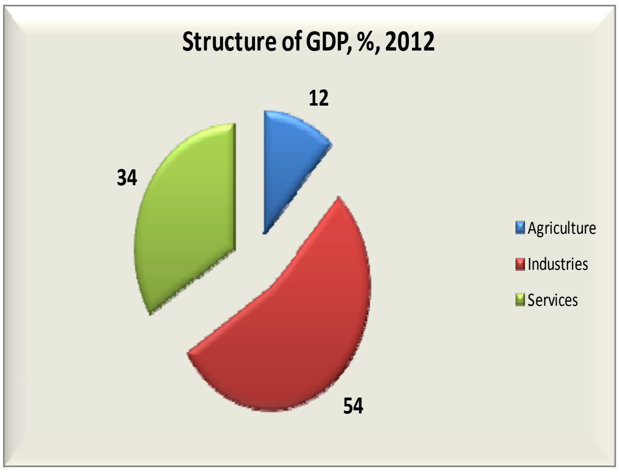
The year 2012 has set a new economic policy for Turkmenistan's sustainable development for the period 2012-2016. The path for perspective mid-term growth has specified a focus on highly competitive and technologically strong economic model. Significant investments have been foreseen in the new economic policy to serve a backbone of perspective economic growth in Turkmenistan. The latter has geared to promote energy and transport sectors as the country's first priorities in the near and medium term. Specifically, by the year 2016, the mid-term program has envisaged a shift to innovative industrialization in the manufacturing sector which has been set forth to expand to 55 percent in the structure of GDP, services 22 percent, construction 14 percent, and agriculture to optimize to 9 percent.

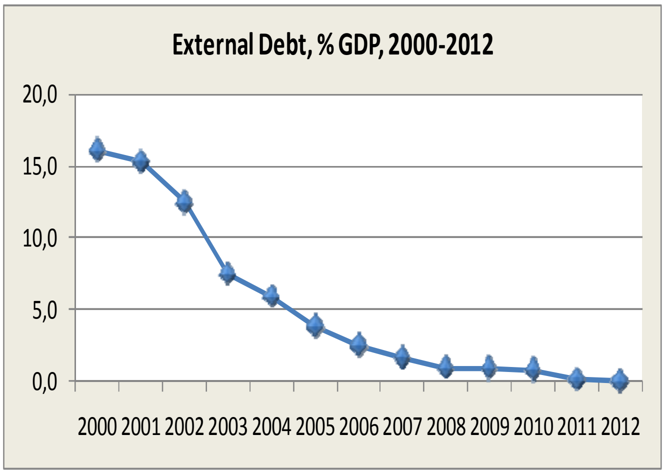
In the meantime in 2012, the services sector shrank by 16.2 percent against 2011 to account to 32 percent of GDP. The agriculture sector has been optimized by 6.6 percent, to settle at 14 percent of GDP. Industrial output increased by 12.5 percent signaling of production at increasing scales. The share of industries thus reached 54 percent of GDP in 2012, nearly hitting the projected 2016 target.

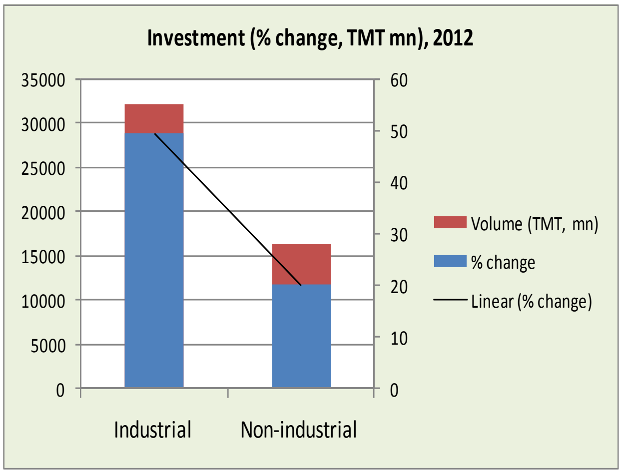
Table 11.Turkmenistan

Macroeconomic Highlights, 2012



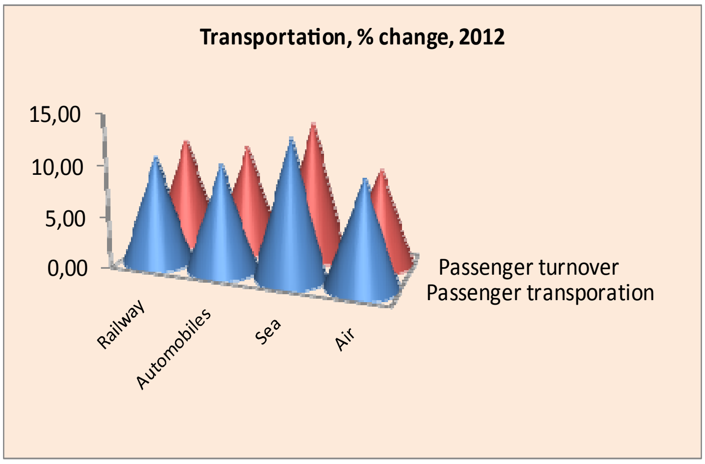






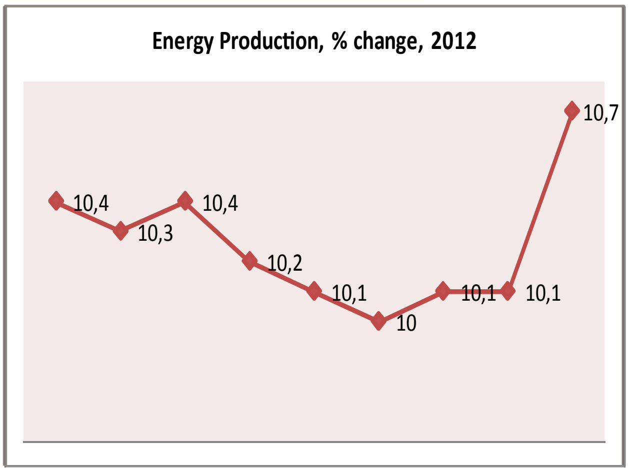
Transport

The overall volume of passenger transportation and passenger turnover increased at 10.4 and 10.5 percent in 2012.



Energy

The energy sector remains one of main sources of national budget revenues.



Notes: production of energy products in 2012 has increased at upward scales. In the above table, the chart on energy reflects the growth dynamics in production of energy products. The growth rates as graphed in the chart are as follows:

Energy products	2012
Electricity	10,4
Oil, incl. gas condensate	10,3
N. Gas	10,4
Gas	10,2
Diesel	10,1
Oil lubricants	10

Kerosene	10,1
Polypropylene	10,1
LNG	10,7

The overall volume of real GDP reached US$ 33.6 billion. The real GDP per capita has recorded US$ 6,511 (fourth highest in the region), indicating 18.5 increase compared to 2011. A distinctive feature in Turkmenistan's phenomenon is the evenly increasing real GDP per capita which grew at 18.4 percent in 2012 against its 2011 size, as mentioned above. Yet, for an energy producing middle income economy with relatively small size of population, 5.3 million, the social gains from a spectacular GDP growth could be more incentivized (in 2012, in Kazakhstan this indicator equaled to US$ 12,007 and in Turkey to US$ 10,666, for comparison)

Turkmenistan's economic growth at an average 11 percent over the past five years, including 2008-2009, even in the face of global economic and financial turbulent times, staged a world phenomenon in economic self-sufficiency in 2012. In the same year, the regional milestone of 11.9 percent in growth of real GDP volume has set an example of sustainability of a self-sufficient economic model.

Inflation has been maintained at 5.3 percent in 2011 reflecting coherence in fiscal policy support by the government but it however rose to 7.8 in 2012 due to higher prices for transport services in the same year. Reversely, unemployment went down to 1.9 percent in 2012. On average, it was kept at low bay at an average 2 percent over the past five years.

Current accounts were positive at 0.1 percent of GDP, showing a slight drop compared to 2011 when they recorded 2 percent surplus. Lower than expected levels of the current accounts for an economy, growing at 11.9 percent in the reported year, have entailed from higher volumes of operating invested capital. Indeed, a number of large scale projects led by international organizations have recorded substantial progress in Turkmenistan, during 2012, including CASA.

One of visible signs of the sustainable economy is its low external debt, which in Turkmenistan's economy has staged lowest in ECO region over the past five years, including peak 2008-2009. In 2012, it registered nil percent of GDP. That has evidenced capital self-sufficiency and the government's prudent fiscal supervision.

As with the energy sector amongst first priorities of Turkmenistan, economic activities in this area have mostly centered around the construction of the Turkmen segment of the regional power interconnection system between Turkmenistan and Afghanistan. These have gained operational momentum in 2012 and were expected to augment Turkmenistan's exports to Afghanistan on electricity, fourfold, in the course of future three five year periods. With Uzbekistan taking the lead in the regional power interconnection systems, the intra-regional gains for Turkmenistan, Tajikistan and Uzbekistan from such integration have been laid down in the realization of mutually beneficial and coordinated efforts at national, regional, and international levels. Turkmenistan is electricity deficient country with 1.2 MW hydro power energy which accounts to only 0.1 percent of the country' total energy production. To that end, there remains a distinctive *niche* for ECO to step in, by filling the existing gap on renewable/alternative energy sources.

The intra-regional trade with ECO economies in 2012 has witnessed the increasing mutually beneficial gains from bilateral exchange of gas for electricity. Turkmenistan has exported 10.2 billion cubic meters of gas to Iran during 2012. However, the share of intra-regional trade with ECO economies stood at a little over 2 percent of the country's gross external trade in the same year.
In overall external trade, exports grew at 19.3 percent in 2012 compared to the previous year, while imports at 24.4 percent against 2011. The overall trade volumes reached US$ 33,241 million. From amongst ECO countries, Turkmenistan has exported to Iran, Turkey and Afghanistan. The trade volumes exported to these countries in dollar terms have been transacted in the above succession. The industries that generated produce for exports have been chemical and textile industries, food processing, and construction sector. Imports to Turkmenistan mainly came from Turkey and Iran.

On transport, the overall bulk in railway passenger transportation has increased by 10.6 percent in 2012 compared to 2011. That included passenger transportation by automobiles which rose at 10.4 percent rate compared to 2011, by sea 13.7 and by air 10.3 percent, accordingly. Increase in passenger transportation by sea has been highest amongst the above quoted transport modes. Being a landlocked economy with constraints to world's open seas, Turkmenistan's stand on increasing its navy transportation is a sign of huge capital investments having been flown into the economy, which over the reported period, have increased by 13.8 percent compared to their level in 2011. In that, the 10 percent increase in foreign direct investments for innovative industrialization of the economy has accounted for transportation as well.

Transportation is indeed an essential source of revenues in the budget of any economies. To that end, the passenger turnover in the economy has augmented on rail by 11.0 percent, automobiles 10.6 percent, sea 13, and air 9.5 percent, respectively, (chart on transportation).

The outlook for near and medium term is positive for the economy. With irreversible acceleration in production growth which in 2012 stood at 7.1 percent compared to 2011, Turkmenistan is looking forward to sustaining the already achieved sustainable growth rate. The economy's growth in production of oil in 2012 reached 10.1 percent and of cotton 10.3 percent. These achievements have indicated at consolidation of the strong industrial and agricultural framework in the country - to back prospective growth up. In addition, an increase in capital investments in the economy in 2012 recorded 7.1 percent compared to growth in 2011. Production of oil has been projected to increase at 7.3 percent in 2013. Given the favorable internal factor, positively influencing prospective growth in the economy, the latter is likely to grow at about 10 percent in 2013. Such forecast has been on the ground that in 2013 the country will start the deployment of the implementation process of the country's new national development program for the period of 2012-2016. The program has been adopted in 2012. For that reason, the growth rate will have been slowed down, in view of the time needed for the restructuring process of the new economic base, which is towards world's top fastest growing economy. Moreover, during 2012, construction of 1800 industrial units has been ongoing. The total value of these units has been estimated at US$ 35.400 billion. In this regard, diversification processes towards the non-oil sector development have fully deployed. Installation of manufacturing processes in industrial units has been envisaged to be in line with the knowledge based economic setup.

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Uzbekistan

In 2012, the economy has approved its national development strategy for 2012-2020. The focus in the medium term development strategy has been set on knowledge based industrial modernization of the economy, transport infrastructure, water supply, private sector.

Like in the neighboring Turkmenistan, sustainable development in Uzbekistan's economy has seen the sustainable growth in 2012. Over the past five years, including 2008-2009, Uzbekistan's sustainable growth rate marked 8.2 percent, on average, in spite of overall fall of global economy in that period. Sustainability in economic growth has been achieved owing to the increase in output production at 7.7 percent, agricultural production 7 percent, construction 11.5 percent and trade turnover at 13.9 percent in 2012.

The real GDP per capita rose to US$ 1,717 in 2012 increasing by 11.1 percent from its mark in the previous year 2011. The country's performance in this societal indicator has been stable over the past two decades.

The overall volume of real GDP reached US$ 51,113. The share of industry in the structure of GDP registered 33 percent, agriculture 9 percent, and services 58 percent.

The current accounts were kept positive at 6 percent, on average, a rare fact, given that the past five global economic crises years, including post peak period, were complex in regaining a sustainable real sector growth rate for most advanced countries, let alone the developing ones. During 2012, the economy has attracted over US$ 11.7 billion. On capital mobilization, over 22.9 percent of the country's GDP has accounted to fixed capital investments. Foreign direct investments reached US$ 2.5 billion. Macroeconomic stability, effective economic diversification, industrial innovation based on knowledge – these have served effective levers in Uzbekistan's prospective stable and balanced economic growth (Table 12).

The fiscal balance has reduced to 0.4 percent of GDP in 2012 after its stable performance in 2011 at 1.5 and 1.8 percent in 2010. The largely undisturbed fiscal balance over the reported period has attributed to the moderate level of the economy's external debt in 2012 at 15 percent compared to 18.5 percent in 2011. On average, the economy's external debt stood at 15 percent over the past five global crises years, including post peak period.

Inflation has remained below 7 percent in 2012, high for an economy with a sustainable growth rate record of GDP over the past five consecutive years in a row. Unemployment has kept the region's lowest, at 0.1 percent, on average, over the past five crises years.

In trade, as the world has been shifting itself onto the path of global economic recovery in 2012, Uzbekistan's exports increased at 11.6 percent and traded at US$ 1.12 billion surplus. Imports grew at 11.4 percent relative to 2011 where the increase was recorded at 24 percent. Imports mainly reflected purchases of capital intensive goods to support the ongoing industrial innovation in the economy. Effective exports diversification has revealed up to 70 percent of exports that came for non-raw resource export items. One of specific features of private sector development in 2012 has been prevalence of its exports in Uzbekistan's overall export volumes. In the 2012 exports, the share of private small and medium enterprises has reached US$ 2.2 billion.

Table 12: Uzbekistan

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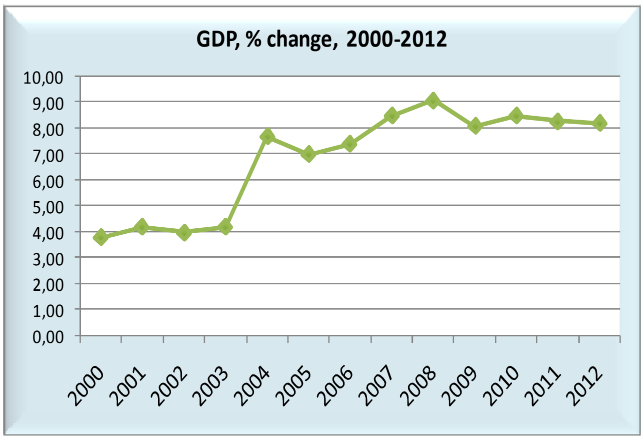
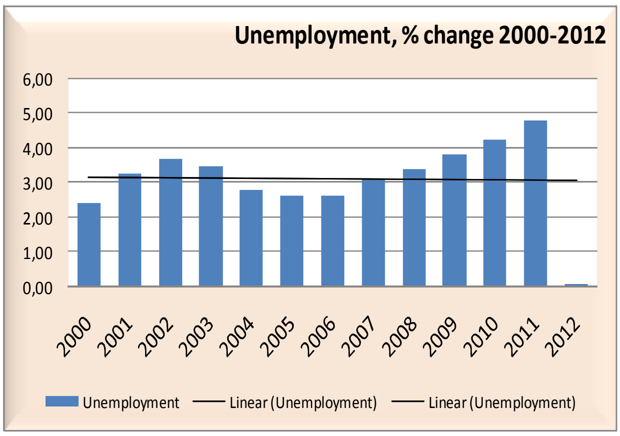
<tr><th colspan="2">Macroeconomic Highlights, 2012</th></tr>
<tr><td>
</td><td>
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<tr><td>Transport
In 2011, Uzbekistan has launched a new initiative to construct an international transport and transit corridor linking Qatar-Oman-Iran-Turkmenistan-Uzbekistan. The primary goal of this activity is to provide better access for the participating countries' exports. In 2012, the process has continued and it is expected that Kazakhstan and Tajikistan could channel their export flows along this transit route.</td><td>Energy
Construction of steam gas plant at Navoyi hydro electric station has been completed. Operating annual capacity of the plant has been set at 478 MW. Its energy efficiency has resulted in savings of 400 million cubic meters of gas, 110 million tons of oil.
Construction of synthetic liquefied fuel manufacturing plant has been launched. Estimated cost of construction works is US$ 4 billion, in total.</td></tr>
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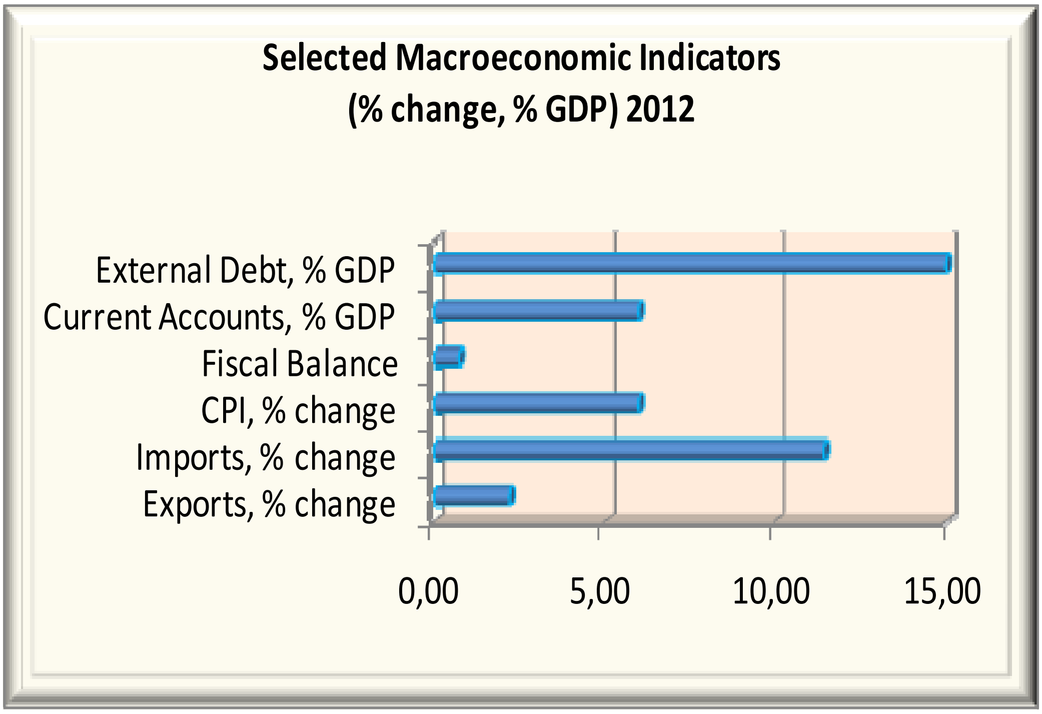
Chart 15. Uzbekistan's macroeconomic heights in 2012



Source: ECO Statistical Network

Transport sector has been specified by the Uzbek government in the country's development program for 2012 as a primary priority. In this regard, the economy, at World Bank's assistance and also support by Germany, Japan, South Korea, Switzerland and UNDP, has taken a lead amongst five neighboring economies in building connectivity roads and promoting railway electrification to Uzbekistan and its neighboring countries. Transport and communications services have increased by 24.5 percent compared to the previous year. Equipment of transport and communication networks by information technology services increased at 18 percent rate against 2011. At the same time, repair and servicing of technical machinery in this sector has increased by 17 percent. Economic activities of the economy associated with expansion of the regional transport network have been reflected earlier in the present report in the chapter, dedicated to Afghanistan. In addition, Uzbekistan's milestones activities in the transport sector were completed during 2012. These have been listed in Table 13 below:

Table 13

Roads contraction and rehabilitation	500 km (total)
Asphalted	163km
Cemented	163km
Construction of the Golestan-Ahangaran Road	116 km has been completed.
Rehabilitation of railways	
The Dashtaban-Djizak Container/Passenger Trains	
2nd Construction phase of Automobile Manufacturing Plant	has been completed (3,000 'Mann' trucks produced)

Outlook for near future growth in Uzbekistan is favorable. Health in the financial performance of the economy has created a conducive environment for capital investments to boost over the past. In 2012, the aggregate banking capital rose by 24 percent. The liquidity ratio of the banks has increased by 15 percent. That has by two times exceeded world's standard requirement for liquidity. Of the country's 26 operating banks, 13 have obtained positive international ratings. Most importantly, the above ratio has held true for the past three consecutive years in a row. Consolidation in banking sector pre-determined the exit of the economy from the global economic crises onto sustainable knowledge based economic path. Moreover, social benefits have been improving at sustainable levels. Over 59 percent of government expenditures have translated into social transfers. In the industrial sector, construction works have been launched in 2012 for a new US$ 4 billion plant on production of synthetic liquefied fuels under clean methane capture technology. At the back of the balanced government budget, the revenues from the production output, which grew at 7.7 percent in 2012, and of agriculture at 7 percent, have provided a strong backbone for prospective near future and medium term growth at estimated 8.5 percent in 2013 and further 8.9 percent in 2014. In addition, the macroeconomic environment reflected in the above chapter of the report on Uzbekistan's performance during 2012, would facilitate an upward sustainable economic growth in the economy (chart 15).

Part III. Conclusions

<u>Assessment of economic performance in the ECO region in 2012 and in 2002</u>

In the reported period 2012

Most world economic fora that discussed the state of the global economy during 2012 have asserted that "the implications of the global economic and financial crises implications have not been curtailed at full yet but have at least been stabilized." Given such assessment of the global economy, economic performance in the ECO region in 2012 may be assessed as stable and stabilizing. In the recent past (2010 and 2011), the overall economic performance of the region had seen higher growth at 5.7 and 6.6 percent. Over the past five years, stabilization has been equalizing the regional economic performance to its pre-crisis levels, growing at over 6.8 percent, on average. As mentioned earlier in the report, economic performance of the region in 2012 has shown sluggishness at a little over 2.0 percent growth rate. Some of the ten regional economies that had exposure of their exchange markets to the European zone have faced a decline in their growth due to low domestic demand and weak economic prospects in the US, EU, economic slowdown in China and Russia. Lower than expected economic performance of the region has also entailed from exogenous shocks that have played their inevitable role. Added to this, uncertainties associated with security in much of the neighboring Middle East and South Asia and South-East Europe, have created tensions in the performance of regional economies in ECO.

To summarize *strengths* and *weaknesses* of economic development in the ECO region, the concluding assessment of major macroeconomic parameters in this regard would be as follows: the consumer price index has stabilized in most ECO economies with exception of a few. With high annual CPI rates in Turkey, Iran, Pakistan at 8.7, 26.6 and 9.7 percent, the regional CPI averaged to 8 percent. Dynamics in global prices and impact of monetary and fiscal policies in individual economies of the region will likely shape inflationary pressures in the region. For the near future, the annual average CPI would sustain at 7.9 percent.

The regional fiscal budget balance registered -1.5 percent of GDP. The tightening of fiscal policies in ECO economies in 2009-2010 has resulted in gradual exposure of remedial effects in subsequent 2011 and 2012. On individual country basis, significant deficits in the fiscal budget were recorded in Pakistan and Kyrgyz Republic.

Lower external debt rates of regional economies (except a few) have registered US$ 533 billion in total volumes of external debt. That accounted to an average 27 percent of regional GDP, world's lowest in its regions. The tendency in the near and medium term for the regional external debt will be for further gradual reduction to 25 percent of GDP.

The overall current accounts performance of the region has been assessed as stable and positive, marking a surplus at an estimated 2.2 percent of GDP. An outlook for the near and medium term for the current accounts has been set for the gradual upward growth.

The FDI has increased to over US$45.5 billion. In spite that the region's FDI has nearly hit its pre-crises levels, the region has still lagged behind world's other regions in attracting massive inward FDI. As the proportion of GDP, these registered 2.3 percent of GDP. In this regard, the domain of FDI has been assessed as requiring an increased focus of the region in the near and medium term - to ensure a strong FDI backbone in the regional economy - to support business dynamism in the region.

External trade in the ECO region has performed at increasing scales, with exports surging at US$ 476 billion, given Turkey's strong trade performance. Imports made US$ 426 billion, accordingly. The trade surplus of the region registered its historic high at US$ 50 billion. The ECO has accounted to roughly 2 percent of world's trade. The outlook for the near future on regional trade is to sustain its growth rate in 2013 and 2014.

The targeted increase on the intra-regional trade amongst ECO economies to 20 percent of total by year 2015 has defined the region's most immediate task in the near and mid-term future. Realistically, an estimated plank of 10 percent may probably be reached by 2015, given the unfreezing of Iran's assets and expectations of Turkey's greater inward focus on trade with its immediate neighbors in ECO and in world's other regions. In the meantime, in 2012, the intra-regional trade volume stood at 7.3 percent in the share of gross external trade returns.

Although, stakeholders have not set mandatory targets for economic competitiveness within ECO but rather relied on world ratings, those have registered economic competitiveness of individual countries economic performance of Turkey, Azerbaijan, and Kazakhstan as highest for the year 2012 in ease of doing business. Setting clear targets within ECO, to measure competitiveness of its member economies in their economic performance, with focus on transport, trade, energy, agriculture, as ECO' priorities, would spur greater dynamism, 'efficiency' and 'visibility' of the ECO region.

A Decade Earlier in 2002

In the light of the positive outlook for the stable near future dynamics in the economic growth of the region, coherence and continuity that are attributes of the historical approach in the assessment of the performance of any of world's economies, has tempted us to look back to the situation where the region was in a decade ago. Honoring in the year 2012 the remarkable twentieth anniversary of the ECO since its expansion in 1992 into world's distinctive ten member economic organization, and since that cornerstone following through a decade long history of greater economic integration amongst ECO Member States in 2012, a snapshot reflection of the performance of the organization in 2002 and in 2012 may have been featured as follows:

The region, availing the 6 percent of world's population in **2002**, had generated the combined GDP at US$ 423 billion. That accounted to 1.3 percent of global GDP in the same year (Table 14).

A decade past, the volume has grown to US$ 1.9 trillion and accounted to 2.6 percent of world's GDP in 2012.

In **2002**, the ECO countries' average per capita GDP stood at US$ 1,144 owing mainly to the high population growth. In that growth, Turkey had registered US$2,608 highest in the region.

A decade later, in **2012**, Turkey's plank has surpassed US$ 10,479 and the regional GDP per capita has reached US$ 4,930.

Table 14: ECO Region, World, Developing Economies

ECO: Macroeconomic indicators	1998	1999	2000	2001	2002	2012
GDP, c. p., US$ billion	391,7	378,6	431,6	403,5	423,1	1925,2
As of World, %	1.3	1.2	1.4	1.3	1.3	2.6
Per capita GDP, US$	1 212	1 151	1 211	1 111	1 144	4 930
GDP, % change	3.3	(0.6)	6.2	1.1	7.3	2.2
Developing countries' GDP, % change	3.5	3.9	5.7	4.0	3.3	3.9

Sources: ECO Statistical Network, WDI

In **2002**, the recovery from the 1998 Asian financial crisis was strong at 7.3 percent of GDP growth (Table 14).

In **2012**, the recovery from the 2008-2009 and post peak period global economic and financial crises has been at 2.2 percent.

Unemployment rate stood at 8 percent average back in 2002.

In **2012**, the annual unemployment rate has declined to an average annual 6.1 percent.

The region's inflation rate in **2002** was high at 18.9 percent annual down from 41.9 percent high in 1998 (Table 15).

The combination of anti-crises measures targeted at keeping interest rates low by tightening the monetary and fiscal regulations and policies have brought the average annual inflation rate down to 8 percent in **2012**.

Table 15: ECO Region: Inflation

CPI, a., av.%	1998	1999	2000	2001	2002	**2012**
ECO countries	41.9	41.1	23.9	31.2	18.9	8.0
Developing countries	10.6	6.9	6.1	5.7	5.6	6.5

Source: ECO Statistical Network, WDI

Trade liberalization, trade diversification under the conditions of world trade sluggishness in **2002** caused by security control imposed on transport of trading goods and commodities worldwide in the aftermath of the September 11th events in 2001, were the main features of trade in 2002 when the region's exports increased by 15 percent compared to 2001. The figure was lower than expected though, given security related forecasts associated with a build-up for war in Iraq in the neighboring Middle East and North Africa region. The imports reached their peak in 2002 with US$103.3 billion and imports US$94.6 billion. Overall, the ECO region's total trade marked US$ 197.9 billion in 2002.

In **2012**, at the back of the gradual recovery from the decline in global trade during 2009-2012, gross external trade totaled to US$ 902 billion with trade surplus at US$ 50 billion. Exports traded at US$ 476 billion and imports US$426 billion. The share of overall trade in the structure of GDP rose to 46.8 percent (Table 16).

Table 16: ECO Trade

ECO Trade , US$ billion	1998	1999	2000	2001	2002	**2012**
Exports	59,3	68,7	83,2	82,3	94,6	476
Imports	81,3	75,4	93	84,9	103,3	426
Total Trade Volume	140,6	144,1	176,2	167,2	197,9	902
Intra-Trade Ratio, %	5.3	5.0	5.3	5.1	5.2	7.6

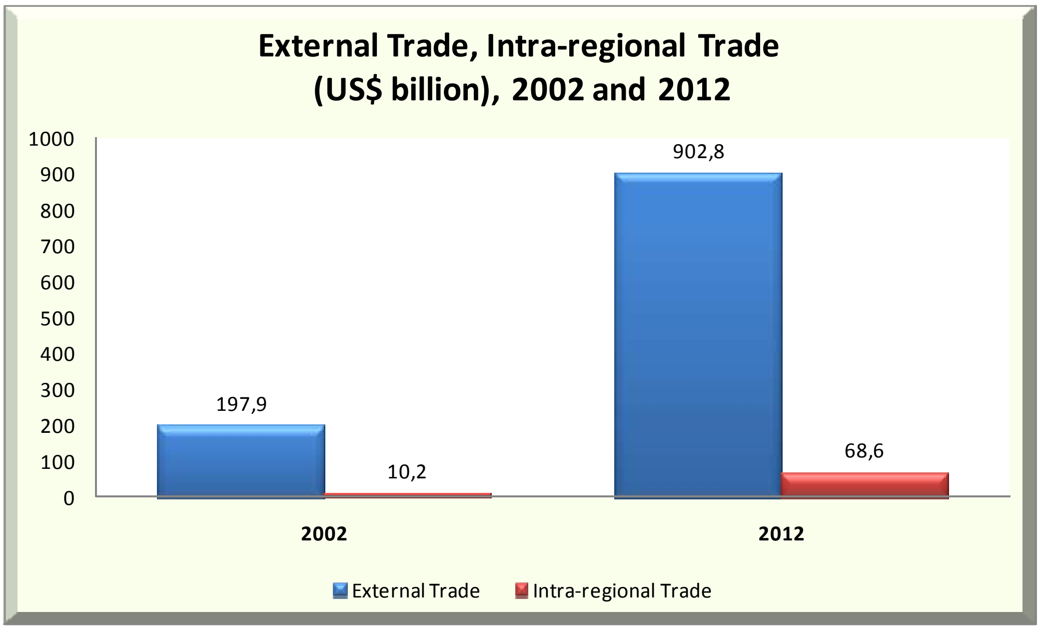
Source: ECO Statistical Network

In **2002**, the total intra-regional trade volume of ECO region increased to US$ 10.2 billion from US$ 8.6 billion in 2001. The intra-trade ratio of the ECO region registered 5.2 percent.

The share of intra regional exports of Pakistan was just 4.9 percent, Turkey 2.9 percent, Iran and Kazakhstan 3.1 percent and of Azerbaijan 7.8 percent, Turkmenistan 21.3 percent, Kyrgyzstan 22.3 percent, and Tajikistan 22.3 percent.

In **2012**, intra-regional trade recorded 7.3 percent of total, with Turkey, Iran, and Azerbaijan registering substantial increases in their trade with ECO economies (chart 16).

Chart 16: ECO Intra-regional trade



Sources: ECO Statistical Network

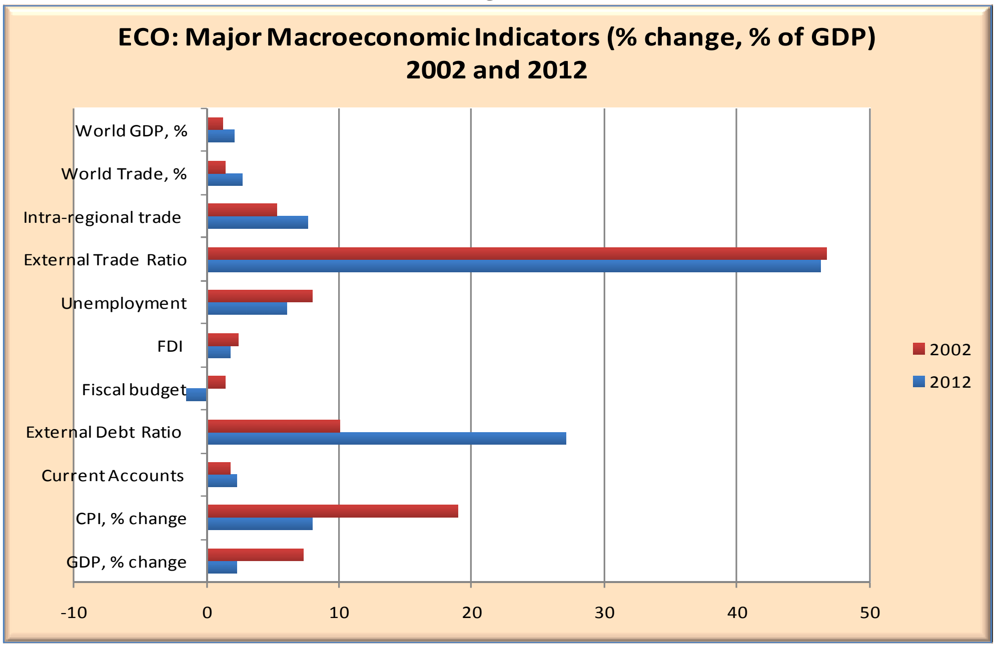
In **2002**, the FDI inflows to the region amounted to US$ 8.3 billion in 2002, 1.3 percent of global FDI. The FDI in 2012 have increased to over US$ 45.5 billion. As share of GDP, the FDI accounted to 2.3 percent in the same year.

In **2002**, the debt to GDP ratio levels in Kazakhstan, Kyrgyzstan, Tajikistan, and Turkey had been relatively high over 60-70 percent but the overall regional indicator was at 10 percent.

In **2012**, an average external debt to GDP ratio reached 27 percent in the region.

Based on the above observations of the economic growth of the ECO region in 2002 and in 2012, the annual dynamics in both years may be reflected through a snapshot picture capturing major macroeconomic trends as in chart 17 below:

Chart 17: ECO Region: 2002 and 2012



Sources: ECO Statistical Network

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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

Abbreviations and Acronyms

The abbreviations used in this report indicate the following definitions: y/y – year-on-yeas; e.o.p. – end of the period, mn - million, bn – billion, trn – trillion, $ and US$ - US dollar, a. – annual, av. - average, % - percent, u – unemployment, r.p.i. – real per capita income, series – 2011-12, period - 2008-20112, ex. – for example, (…) data exists but unavailable, (.) data is embargoed, (‘e’) and est. - estimate, (_) zero, (0) below 0,05.

The following assumption has been adopted for the present report that national economic and statistical indicators of the member states have been derived from country reports of respective economies and ECO Statistical Network. The methodology for statistical data is being developed by the Secretariat but in the meantime the present report follows individual countries’ methodologies. In cases of any divergences in statistical and economic data, as reflected in the report, the most recent, indicated in the official country statements at high national level should be authentic, given the nature of the ECO which is inter-government organization.

Assumption has been adopted to focus on selected economic indicators which present the core interests of the member states as specified by the stakeholders. A series of comparable indicators has been limited to priority areas and their range has been narrowed down based on prioritization of area activities within ECO.

Assumption has been adopted to account for the re-assessment globally at country level of statistical data series ranging from 2000-2010 as the consequences of the assessment of implications of the global financial crises in 2008-2009 and the follow up modification in assessment methodology and techniques. In this regard, divergences between the quotes of data in the previous reports and the present one need to be accounted to the post-global economic crises statistical discrepancy.

Assumption has been made for the fiscal budget as the sum of revenues from taxes collected and proceeds from sales of assets less government expenses. Reflection of the budgetary performance of the region has confined to the indicators submitted by member countries. For a wide variation in these indicators as presented to multipurpose international organizations, including on loaning, and also to the ECO for purposes of sharing good economic governance practices, the public revenues, and taxes, and public expenditures as submitted by the member countries to ECO data base differ from those collected by world’s key organizations, such as IMF, specializing on fiscal and monetary supervision. In this regard, reflection of the region’s combined budget balance has been limited; least more details come in future in the form of the required data set for the matters relating to monetary and fiscal policies and budget consolidation.

Following the historical approach in preparing annual economic reports, the selected comparable set of economic data has been followed in compliance with the historic approach.

Time frequency in publication of the report has been followed, namely 1.8 years upon expiry of a reference year. In this regard, the difference in annual economic reporting in countries that follow the time period June 2012-June 2013 has been accounted for, accordingly.

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

Also, to address readership's preferences, on the macroeconomic indicators on which no impact has been observed in the reference period, reflection of those has been omitted. Also, for reader user purposes, repetitive coverage of comparative data on a long list of indicators has been confined to major ones as specific for the region.

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.2011-2012 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. 2011/12) indicate a fiscal or financial year, in the same manner as does abbreviation "year 2012", "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, 'real sector economy' to the "manufacturing sector', the term "GDP" in the report refers to the GDP at current prices, "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" or "IN" refer to intra-regional trade, "ext.t" or 'OT' refer to external trade, "TMT" refers to Turkmenistan Manats, "tapering" refers to the reduction in the quantitative easing by central/national banks of member states (reducing the money supply through the lower interest rates), "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, domestic production/consumption refers to production/consumption in an individual country.

The definitions of statistical and economic terms and data used in the report could be found in the concepts, definitions and classifications, as described by ECO Statistical Network in its Methodology and metadata. The enclosed tables containing ECO key statistical indicators are also available on ECO website under ECO-SN.

The 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. The abbreviations used in the report for international organizations, regional entities, and world's regions have been disambiguated in the content of the report.

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Tables