

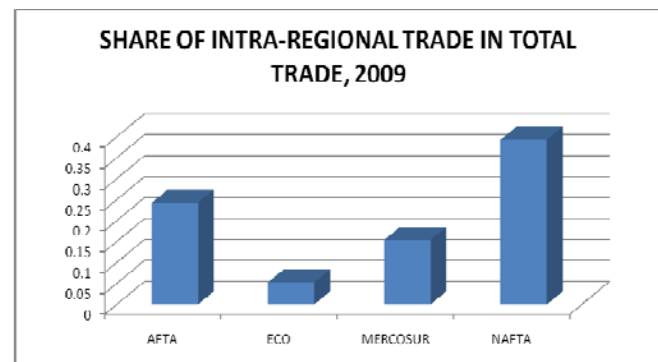


STRENGTHENING INTRA-REGIONAL TRADE AND INVESTMENT IN THE ECO REGION

With the stalling of multilateral trade liberalisation efforts under the World Trade Organisation (WTO), the developing countries are rapidly moving towards the formation of regional trading blocs to boost their trade. According to the WTO, some 474 Regional Trade Agreements (RTA's) have been notified to the WTO and about 283 were in force as of July 2010. Pakistan too is aiming to enhance its trade linkages with the regional partners and is a member of 'Economic Cooperation Organisation' (ECO)—a region comprising 9 other countries including Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan. Unfortunately, despite various initiatives to strengthen regional economic cooperation, the region remains one of the least integrated in the world with weak intra-regional trade and investment linkages. This viewpoint argues that the ECO provides an important platform for the member countries to enhance their growth prospects through greater trade and investment in the region, and suggests measures to bolster regional economic cooperation in the ECO.

To begin with, geographical proximity, shared social and cultural characteristics, and diversity in economic structures all combine to make up a strong case for promoting regional economic integration in the ECO region. The ECO region with average per capita GDP of \$3578 and a combined population of 417 million is well endowed with natural resources like oil and gas, gold, uranium, and iron. The member countries have diverse production structures with Turkey, Iran and Pakistan having strong manufacturing and services sectors and the Central Asian Republics in the process of transformation from centrally planned economies to market based

systems. Liberal trade policies can result in trade creation among the member countries entailing several benefits including lower prices, more product variety and quality, and improved incentives for innovation. The benefits of regional economic integration can go far beyond trade creation. For example, a greater level of economic integration can be instrumental in locking-in trade policy reforms allowing the countries to enhance their policy credibility. Also, increased economic ties in the region may create mutual stake-holding in the region, reduce the risk of conflict, and thus enhance regional security.

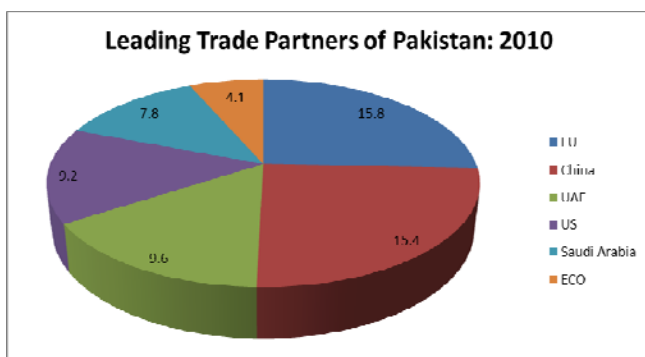


Though the existing volume of bilateral trade with the ECO countries remains small, and in some instances trade complementarity is low, there exists potential for strengthening intra-regional trade across a wide range of commodities. Research has shown that Pakistan has the potential to export a broad range of commodities covering some 30 productive sectors including cotton and textile products, leather products, sports articles, cereals, carpets, staple fibers, apparel and clothing, vegetables, and fish products. It is pertinent to point out here that once trade is liberalised in the ECO region, the volume of intra-regional trade is expected to increase manifold. A recent study conducted at PIDE has shown that trade in the ECO region can increase by a factor of eight as a result of a potential free trade agreement among the ECO member countries.

Besides trade in goods, there exists potential for Pakistan to expand its trade in services with the ECO member countries. In recent years, trade in services has surged across the globe owing to advances in information and communications technology that have enabled service providers to expand into global markets. With falling communications costs this trend is likely to further strengthen in the future. The services trade in the ECO member countries is of intra-industry variety signifying that intra-regional trade can be strengthened in all segments of the services sector. On the demand side, a majority of the ECO countries are in transition and have a great demand for construction, telecommunications, and financial services. On the supply side, Pakistan can be an important supplier of a wide variety of services including information and communications technology, construction, and business and financial services. The developing countries of the ECO region such as Afghanistan, Tajikistan, Turkmenistan, and Kyrgyzstan can benefit from Pakistan's expertise in construction services.

Regional economic integration schemes are playing an important role in encouraging not only intra-regional FDI but also FDI from non-members. In the ECO region, there is significant potential for intra-regional FDI to expand in the areas of energy, telecommunications, and construction services. The ECO region also has the potential to become a major FDI destination from non-member countries owing to a large combined market with diverse consumption patterns. Whereas these are important attributes for foreign investors, the individual member countries must also take steps to put in place an environment that can enhance the profitability of foreign investors. In particular, to attract FDI the host countries need to provide a business-friendly environment, promote industrial diversification, upgrade physical infrastructure, promote special economic zones, and take effective steps for human resource development.

Regional cooperation in ECO can contribute significantly to the development of financial sectors in the ECO member countries. Pakistan has a well-developed financial sector with large and experienced commercial banks that can offer their services to the ECO members. The less-developed countries of the region can learn from the experiences of Pakistan and Turkey in financial sector development. Regional cooperation will not only improve access to financial services and instruments but will also facilitate intra-regional trade in goods and services in the ECO region. The ECO Trade and Development Bank can play an important role in the development of regional trade and finance. The Bank needs to expand its



Box 1

The ECO Preferential Trade Agreement (ECOTA): Moving Forward

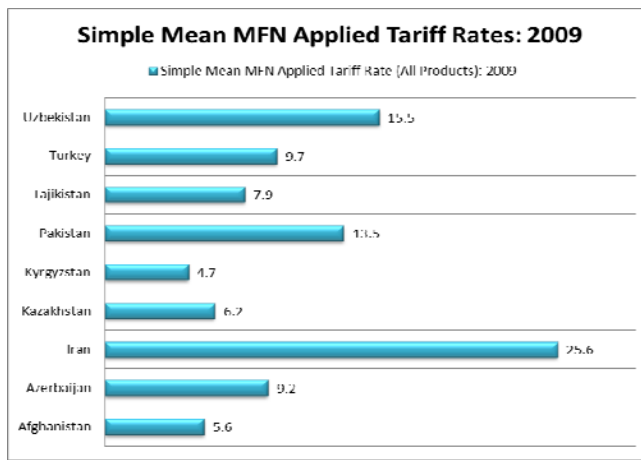
The ECO Preferential Trade Agreement (ECOTA) has the potential to become an important platform to strengthen intra-regional trade and investment relations. Unfortunately, even after the lapse of eleven years since its conception, the full implementation of ECOTA remains in the doldrums as the member countries have failed to finalise the lists of products to be offered tariff concessions under ECOTA. Pakistan along with other large economies including Turkey and Iran should strive to push for the effective implementation of ECOTA which can be instrumental in strengthening regional trade and investment ties. Under the Izmir Treaty, the member countries are committed to establish a free trade area in the region by 2015. This is a desirable goal but it can only be achieved if the member countries seriously adopt the provisions of ECOTA which will then pave the way for a free trade agreement in the ECO region. The full adoption of ECOTA would send a strong signal to all the stakeholders about the resolve of the member countries to eventually establish a free trade area in the ECO region as envisaged in the Izmir Treaty. On the other hand, failure to implement ECOTA would hurt the credibility of the member states thus seriously jeopardising all efforts for a greater level of regional economic integration in the ECO region.

operations in terms of medium and long-term financing facilitates for both public and private sectors. The bank can also play an important role in promoting intra-regional trade through provision of trade finance facilities to the ECO member states.

In recent years, the regional integration schemes have played a vital role in fostering wider economic and technological cooperation among the member countries by providing specific modalities for enhanced technological cooperation. The ECO region too offers significant potential for a broader level of cooperation that is based not just on trade and investment but also on other avenues including infrastructure, information and communications technology, and exchange of technical personnel. The ECO member countries are at different stages of development with different infrastructure needs. Pakistan, Turkey and Iran are relatively more developed countries in the region whereas other regional countries are in the process of upgrading and modernising their infrastructure. The construction and infrastructure projects offer opportunities for mutually undertaking such projects in the ECO region. The member countries can develop important partnerships by pooling their financial resources as well as sharing technical expertise in construction and infrastructure development. Such technical cooperation can be an effective vehicle for greater development and prosperity of the region.

It is important to emphasise that the potential for greater trade and investment ties in the region cannot be realised unless supportive measures are adopted to establish trade regimes that are open and responsive to the needs of intra-regional trade and investment. First and foremost, there is a need to further liberalise trade through reduction in tariff and non-tariff barriers.

Whereas many countries including Pakistan have already carried out trade policy reforms to liberalise their trade regimes, some ECO members continue to impose high tariffs and non-tariff barriers. Besides a liberal tariff regime, there is a need to improve trade facilitation mechanisms in many ECO member countries especially Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan. It is generally believed that doing business in these countries is difficult because of the cumbersome and complex bureaucratic requirements imposed on international trade transactions as well as inefficient trade and transport infrastructure. Trade facilitation is universally accepted as a means of improving the efficiency of international trade and economic development. Trade facilitation is an issue that is linked to a number of critical areas with far reaching implications for competitiveness and economic efficiency. Despite efforts to streamline the customs procedures, the clearance of consignments remains a problem due to weaknesses in customs administration and cumbersome regulatory procedures.



Box 2

Energy Cooperation in the ECO Region

Pakistan's economy has suffered badly from the unprecedented energy crisis that has gripped the country for the last several years. Pakistan needs to evolve a long-term strategy to secure adequate energy supplies to sustain a growth rate of 7-8 percent per annum. In this context, the ECO region, where some countries are endowed with abundant energy resources whereas others like Pakistan are energy deficient, offers great potential for cross-border energy cooperation. The proposed Turkmenistan, Afghanistan, Pakistan, India (TAPI) gas pipeline is of immense strategic importance. The project would not only ensure energy security but would also be instrumental in encouraging regional peace thus ushering in greater possibilities for regional trade and investment. Other modes of energy cooperation also exist in the ECO region. For example, there is a potential to expand cross-border electricity transmission between Iran and Pakistan. Regional cooperation in energy will open up new avenues for economic development of the ECO member countries leading to a more effective utilisation of natural resources in the region while at the same time helping the energy deficient countries to improve their energy supplies.

Another initiative that can help boost intra-regional trade is monetary cooperation. Many ECO members often face foreign exchange constraints especially in the wake of external economic shocks. Lack of adequate foreign exchange reserves can hinder all international transactions including intra-regional trade and investment. In this context, monetary cooperation among the ECO members can be instrumental in enhancing intra-regional trade. For example, membership in the Asian Clearing Union (ACU) can help strengthen intra-regional trade by circumventing the need for hard currency. Pakistan and Iran are already members of the ACU and trade ties can be strengthened if other ECO countries also acquire the ACU membership.

The ECO member countries need to put in place effective mechanisms to encourage a deeper level of economic integration in the ECO region. First, the member countries need to open up cross-border movement of technical personnel in the region. Policies in this area may include temporary work permits to technical persons, exchange visas, and business visas. Second, the member countries need to facilitate their enterprises who wish to engage in cross-border service provision under Mode-3 of GATS. This will ensure that the regional companies are able to secure construction and infrastructure projects in the ECO member countries. Third, the member countries need to devise mechanisms to facilitate mutual sharing of their experiences especially in technological fields. For example, Pakistan has the knowledge and capacity in agricultural research and extension services. The experience and knowledge of Pakistan can be instrumental in helping other ECO member countries to replicate best practice models in agricultural

research and extension. Fourth, there is a need for individual member countries to develop a network of their universities that can help collaborative research and development activities to the mutual benefit of the member countries.

To sum up, the ECO region offers a win-win situation for the member countries to enhance their development and growth prospects through greater intra-regional trade and investment. Pakistan is a key strategic partner in the ECO region and it can and must use its influence to move the process of regional economic integration forward. In particular, Pakistan should push for the full implementation of ECOTA that will set the stage for an eventual free trade agreement in the region. Also, there is a need to facilitate business to business contacts in the ECO region. The importance of advisory services, market intelligence, and export promotion in helping private businesses to sell their products in the regional markets cannot be overemphasised. The government can also help in international trade fairs, and overseas market visits to provide exposure to regional markets. At the institutional level, Pakistan needs to work closely with the ECO Secretariat to help set up a joint commission on economic and technological cooperation in the ECO region. The commission may serve as an umbrella to oversee all initiatives of regional economic cooperation including trade in goods and services, mutual investment, technical collaboration, and cross-border trade in energy. Finally, and perhaps most importantly, a greater level of economic integration in the ECO region can be instrumental in the restoration of regional peace and security that is so vital for the economic development and prosperity of Pakistan.

Prepared by

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