

# **THE ECONOMIC COOPERATION ORGANISATION (ECO)**

## **A Short Note**

Selim Ilkin\*

This note traces the history of ECO back to the original Baghdad Pact of 1955 and considers its evolution over time and the various changes it went through in terms of name, membership, goals, and structure. The recent inclusion of the Central Asian Republics and Afghanistan transforms the Organisation into a wide cooperation forum which is now preparing to address the needs of more than 300 million people and contribute to the reconstruction and development of an area covering 7 million square kilometres.

### **1. INTRODUCTION**

Two powerful and interrelated forces are currently reshaping the world economy. One--the globalisation of business mainly through the spread of multinational companies--is forging increased international interdependence, as a growing proportion of production enters trade and as foreign direct investment accumulates. Successful termination of the Uruguay Round of trade negotiations recently, is no doubt a very important step in this direction. It will enforce the globalisation process. The other--the resurgence of regionalism, certainly in Europe and arguably elsewhere--may point in a somewhat different direction.

Economic Regionalisation can be interpreted as the promotion by governments of international economic linkages with countries that are geographically proximate. This is accomplished, in particular, by the removal of barriers to mutual trade in goods and services through the negotiation of free trade areas, customs unions and other preferential trade agreements. Linkages may be further stimulated by freeing the international interchange of capital and labour. Regionalism, coupled with globalisation, raises a very important and challenging issue.

The motives behind the apparent growth and renewal of regional trade arrangements in recent years become important especially if one bears in mind that the proliferation of preferential trade agreements 20 or 30 years ago among developing countries turned out to be a very limited success.

The answer lies, first of all, in the fact that despite the conclusion of the Uruguay Round of Trade negotiations, uncertainties prevail. Once again the North-South division in the world economy will come to the forefront. Furthermore, because of the changing global environment, the countries of the South can no longer rely on the North to act as an engine for their future growth, despite the fact that the world has become increasingly interdependent and, in a sense, integrated. Consequently, for the developing world, South-South cooperation and the development of various regional integration schemes become imperative means to secure a better place in such a setting.

Rapid technological progress and growing integration of global markets have transformed the role of economic interdependence in the world. Vigorous and dynamic participation in the channels of trade and primary resource flows will, to a growing extent, determine national welfare. As the technological frontier is being pushed out, competitive pressure keeps mounting. Market size and specialisation become important determinants of national and international economic and financial performance. In such a setting, national boundaries constitute a limitation on the size of the market and, therefore, on the scope of specialisation (Bhagwati, 1992, pp.535-555; Oman, 1993, pp.51-70).

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\* Senior Economist at the SESRTCIC.

This paper will discuss the establishment of RCD in the 1960s and its revitalisation as ECO in the 1990s.

## **2. FROM RCD TO ECO**

The origin of the ECO dates back to the 1950s. In 1955 the Baghdad Pact was formed with the participation of Turkey, Pakistan, Iran, Iraq, the USA and the UK in order to block possible Soviet advances in the Middle East. Upon the withdrawal of Iraq from the Baghdad Pact in 1958 as a result of a pro-Soviet coup d'état, the Pact was renamed as the Central Treaty Organisation (CENTO).

However, CENTO's objectives were mainly military. And three regional member countries of the CENTO, Iran, Pakistan and Turkey, formed a parallel but new alliance based on regional economic cooperation named as the Regional Cooperation for Development (RCD) in 1964 (Armagan, 1971).

Among the main aims of RCD were:

1. a free or freer movement of goods through trade agreements.
2. the formulation and implementation of joint projects.
3. to undertake necessary studies for construction and improvement of rail and road links.
4. to improve the air and maritime transport services within the region and to investigate possibilities of joint ventures in these fields (RCD, 1968, pp.5-6).

RCD started functioning in 1965, with a permanent secretariat at Tehran, Iran. During the first decade of its existence, RCD was very active in formulating many different projects ranging from the liberalisation of trade among the member countries, to various joint industrial, financial and transportation projects (RCD, 1975). Yet it has been able to achieve very little in terms of concrete and operational results as “...despite numerous activities initiated in various sectors and the wide publicity given to the RCD, the latter could not make the impact expected of it. Its most glaring failures were in the field of trade and industry. Liberalisation of the inter regional trade is the *sine qua non* of the success of a regional economic organisation but RCD failed to provide a format for the expansion of trade. It also failed to provide a mechanism for the mobilisation of the resources from within the region with the result that its achievement in industrial collaboration remained rather meagre ....”. Therefore it was felt necessary to reorganise the structure of the RCD (ECO Secretariat, 1991).

The RCD Summit Conference was held on April 21-28, 1976 in Ýzmir, Turkey where the member countries adopted a new Agreement called the Ýzmir Agreement. This new agreement redefined the aims of the RCD and envisaged some organisational changes to this end. The most important change was the agreement on the “establishment of an RCD Free Trade Area within a period of ten years...”. Before the ratification of this agreement, however very important political changes took place in all of the member countries, “which threw the RCD into dormancy...”(RCD Newsletter, 1976) . This situation continued up until 1984 because of the uncertainties prevailing at that time in the regional and international arena.

## **3. ESTABLISHMENT OF ECO**

### **3.1. Aims and Structure**

Since its *raison d'être* was incontrovertible, the RCD was revived in January 1985 under a new name, the Economic Cooperation Organisation (ECO). Despite several meetings, it was soon realised that the organisation could not gain momentum without sufficient political and legal backing. It was after a Ministerial Conference convened in June 1990 in Islamabad, Pakistan, and amendments to the Treaty of Ýzmir were adopted, that ECO became operational on 11 January 1991, with its Headquarters in Tehran, Iran (Armangil, 1992).

The present Treaty of ECO, as an organisation set up for the purpose of promoting economic, technical and cultural cooperation contains the following objectives:

- \* To expand trade among Member States by providing freer access to each other's market;
- \* To promote in each Member State conditions for sustained economic growth in order to achieve continuous improvement in the standard of living of the people;
- \* To consolidate cultural affinities and spiritual and fraternal ties that bind the people of the Member States through social and cultural channels of thought and action; and
- \* To contribute to the growth of world trade and to strive for removing iniquitous trading policies resulting in adverse terms of trade for the developing countries, by evolving a common approach in international forums.

It is clear that ECO's main aim is to establish a preferential trade system, rather than a free trade area. Consequently, the other commitments of member countries will not be affected by the agreement. Furthermore, ECO is not conceived as a closed system, but rather an open one which aspires to obtain a greater share of the world trade. It is with this principle in mind that the member states will examine the basis of their contractual commitments, and work on "the possibility of ensuring the fullest possible reduction of trade barriers in the ECO area at an appropriate time in the light of the experience gained within the ECO Preferential Tariff System without prejudice to other international commitments undertaken by the member states." (Article III).

The task entrusted to the ECO shall be carried out by the following organs (Akpinar and Teksen, 1995):

***The Council of Ministers:*** This organ is the principal policy and decision-making body of ECO. It shall comprise the Ministers of Foreign Affairs of the Member States or any other representatives of full ministerial rank as may be nominated by the governments. This Council shall meet at least once a year by rotation in the member states. When the Council of Ministers is not in session, their Deputies will carry out the continuation of the task. Deputies will be the Heads of Diplomatic Missions of the Member States accredited to Iran and the concerned Director General of the Ministry of Foreign Affairs of Iran.

***The Regional Planning Council:*** This Council will comprise the heads of the Planning Organisations of the Member States and/or such other representatives of the corresponding authority. This council will meet at least once a year at the Headquarters of the Organisation. It shall consider and evolve programmes of action for realising the objectives of the Organisation to be submitted to the Council of Ministers for approval along with a review of past programmes and evaluation of results achieved.

There has been a new tendency to organise these Technical Committees at Ministerial level, such as the recently convened Meeting of Transport and Communications Ministers.

**The Secretariat:** The Secretariat is functioning with its Headquarters in Teheran. Among the major functions of the Secretariat are: (i) initiation of plans and drawing up of programmes of activities for submission to Member States, (ii) maintaining contacts with Member Governments with a view to following up the progress of the implementation of Council of Ministers and other matters relating to the Organisation, (iii) acting as a clearing house for all matters relating to ECO, (iv) acting as the information agency for ECO.

The Secretary General shall be the overall Head of the Secretariat and shall be appointed by the Council of Ministers. His tenure of office will be four years. This post will rotate among the member countries.

**Specialised Agencies:** These will be agencies and institutions to operate in some specified fields of cooperation. For the present, the establishment of the following agencies is envisaged:

- (i) ECO Chamber of Commerce and Industry, in Teheran.
- (ii) ECO Insurance Centre, in Karachi.
- (iii) ECO Integrated Re-Insurance Pool, in Ýstanbul.

The Technical Committees: These committees will study certain specific tasks assigned to them and will submit their reports to the Regional Planning Council. For the present the following committees are established.

1. Committee for Economic and Commercial Cooperation,
2. Committee for Cooperation in the areas of Transportation and Communications,
3. Committee on Industrial and Technical Cooperation,
4. Committee for Agricultural Cooperation,
5. Committee for Cooperation in the area of Energy,
6. Committee for Educational, Scientific and Cultural Cooperation,
7. Committee for Cooperation in the field of Narcotics Abuse Control,
8. Committee for Cooperation in the fields of Health and Environment.

Although not specifically mentioned in the founding Treaty of the ECO, Summit Meetings became an important modality in the activities of the ECO. The three successive summits held in the last three years gave ECO not only political backing, but also a new momentum.

### **3.2. Enlargement**

The collapse of the Soviet Union created new independent states, in Central Asia as well as other places. All of these countries had close historical and cultural ties with the founding member countries of ECO. They were in search of new alliances, which led them to join ECO. In 1992, Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan, Kyrghyztan and Kazakhstan all became members of ECO. To these Afghanistan, which came out of a long Soviet occupation and civil war, was added, raising the number of member countries of ECO to 10. The membership of new countries has brought new dynamism to ECO. As said by Süleyman Demirel, President of Turkey, now the ECO region “has all the essential elements to become one of the most prosperous regions of the world with its rich natural resources, trained manpower, deep-rooted culture and tradition...” It is up to ECO countries to mobilise their joint forces to make use of these opportunities (DPT, 1992; ECO, 1993).

### **3.3. ECO’s Long Term Perspectives**

The Council of Ministers stressed the fact that as a result of the transformation of the Organisation into a wide cooperation forum there was a need to develop a long-term perspective

to define the basic goals to be achieved in regional cooperation up to the year 2000 and beyond. They adopted two important and complementary documents in this respect. The first, adopted in Quetta, Pakistan, on February 6-7, 1993 was called "Quetta Plan of Action". The second document was adopted in a special meeting held in Ýstanbul, Turkey, on 5-7 July 1993, and called "ECO Long-Term Perspective" or "Ýstanbul Declaration" (ECO, 1993).

The Documents underline the vital need for mobilising human and natural resources of the region based, as far as possible, on the principles of a market-oriented economy and common benefit. Since modern communications are the pre-requisite for achieving the goals in question, the transportation and communication sector will top the ECO agenda in the coming years. The Documents envisage that by the end of the century the ECO region would be connected by roads, railways and airlines as well as by a telecommunication network.

The Documents note the urgent need to collect reliable basic data, economic and technical indicators, and information on a region-wide scale. Furthermore, they recommend the setting of guidelines in the fields of Transport and Communications, Trade, Energy, Industry, Agriculture, Tourism, Human Resources Development and establishment of an ECO Special Fund for Feasibility Studies. Effective follow-up action by ECO Member States and organs including the collection of data and feasibility studies are planned to be completed by 1995, thus permitting the implementation of the Plan's targets by the end of the century. An article in the Quetta Plan of Action envisages that "...ECO projects and programmes for regional cooperation could be put in motion whenever any number of ECO countries were ready to ... act together while the remaining ECO countries would be encouraged to join in when they were in a position to do so...". This is no doubt a principle which will facilitate the implementation of projects without seeking a consensus.

Recently a group of "eminent persons" has been formed in order to evaluate the aim and structure of the ECO, in light of the rapidly changing conditions of the world economy.

### **3.4. Major Projects**

Here are some of the projects that appear on the agenda of ECO meetings.

#### *(i) ECO Preferential Trade Protocol*

Trade, being an important instrument for promoting regional cooperation, remains a priority area in ECO's scheme of work. The low quantum of intra-regional trade shows that there exists a big potential for diverting trade from non-regional sources to sources in the region. The promotion of trade helps evolve complementarities in the economies of the member states and paves the way for pooling resources to establish infrastructural links and industrial projects.

As a first step towards the gradual elimination of trade barriers within the region, a Protocol on Preferential Tariffs Arrangement has already been concluded providing a 10% reduction in tariffs on an agreed list of commodities. The agreement was initially for a period of four years, but would be automatically extended for a further period of two years. The founding members of the ECO--Iran, Pakistan and Turkey--have already ratified this agreement. Implementation of the protocol will start as soon as the other (new) members of the ECO have ratified it.

In the latter stages, a further reduction in tariffs as well as an expansion of the range of commodities included, are also envisaged. In order to expand trade, several other measures, such as improvement of transport and communication infrastructure, easier travel facilities for ECO nationals and greater interaction between business communities of the Member States through the ECO Chamber of Commerce are being pursued.

*(ii) ECO Trade and Development Bank*

An important role is given to the Bank in realising the main objectives of the Organisation. The Bank is to provide commercial and industrial financing for promotion of regional trade and industrial joint ventures in the Member States. The proposed bank with its headquarters in Ýstanbul, Turkey, will operate on purely commercial grounds, and will follow the internationally accepted financial rules, procedures, and standards.

The Council of Ministers in their February 1994 meeting approved the initial statute of the Bank.

*(iii) ECO Reinsurance Company*

A scheme that was originally established by RCD, the Reinsurance Pool has already proved to be a modest success story of trilateral cooperation. The Pool has grown both in membership and volume of business since 1985 with the estimated total premiums rising from \$ 4 million in 1985 to \$ 15 million in 1991. A Reinsurance company is now proposed to be established by converting the existing integrated ECO Reinsurance Pool.

*(iv) ECO Shipping and Air Company*

At the Second ECO Summit, Ýstanbul, 6-7 July 1993, the parties agreed to establish two companies, one for Shipping and the other for Air transport, in order to ensure adequate services among the member countries. This agreement was signed by some member countries during the Third ECO Summit, Islamabad, 14-15 March 1995. A proposal made by Turkey was inserted in the agreement: "Each ECO member state party to this Agreement shall have the right to transfer all or any part of its share to the private sector...." The inclusion of this paragraph paves the way for the private sector to join the project in future.

*(v) ECO Transport Master Plan*

In the transport sector, efforts are underway to connect all ECO Member States by road and railway links. The relevant technical committee is now surveying the existing facilities and identifying the difficulties in the ECO road and railway network and the multimode transport infrastructure in order to formulate precise recommendations for the completion of the missing road and railway links.

The telecommunication heads of ECO countries have also been meeting at regular intervals. A significant proposal now under consideration is the establishment of the Ýstanbul-Tehran-Islamabad Optic Fiberline.

#### **4. SOME OBSERVATIONS**

Immense efforts are being made by the member countries, as well as the ECO Secretariat, to organise various meetings, at different levels, in order to come up with concrete projects. This is a basic requirement for the finalisation of the cooperation schemes. Member countries' first priority, if expansion of intra-trade is put aside, is the area of transportation and communication. Given the nature of these sectors, preparation of the projects requires a lot of effort as well as resources. The ECO Secretariat is presently busy with the finalisation of the projects. But ECO's progress in implementing the projects decided upon thus far has been very limited. Even among the original members of the ECO, national economic systems and therefore economic policies differ to a great extent. For example, Turkey's liberal economic policy, based as it is on the

initiative of the private sector, makes it difficult for this country to participate in projects initiated by the member governments of the ECO. To find the right mix among state and private sector enterprises for joint projects seems to be one of the main difficulties that have to be solved.

Again, as seen in the table below, trade among the original members of the ECO accounts for a very small percentage of their total trade. It is hoped that the agreement on tariff preferences among the member countries will positively affect intra-ECO trade. Yet, there exist great differences in the degree of "openness" of the economies of the member countries. No doubt these differences are among the factors that negatively affect intra-trade.

The Central Asian Republics that have recently become members of ECO are presently undergoing the difficult task of transforming their centrally planned economies into market economies. For these countries as well as for Afghanistan, which came out of a long and costly civil war, some time would be needed before they can actively participate in the activities of the ECO (Kirmani and others, 1994).

Intra-ECO Trade of Original Members, 1993

(in million US dollars)

Countries	Iran		Pakistan		Turkey	
	Imports	Exports	Imports	Exports	Imports	Exports
Iran	--	--	149	18	416	487
Pakistan	20	135	--	--	113	53
Turkey	<u>531</u>	<u>365</u>	<u>58</u>	<u>103</u>	--	--
Intra-ECO total	551	500	207	121	529	540
Percent of total Imports and Exports	3.5	3.4	2.2	1.8	1.6	3.3

Source: IMF, Direction of Trade Statistics, 1994.

## 5. FUTURE PROSPECTS

(i) The ECO is now preparing to address the needs of more than 300 million people and to contribute to the reconstruction and development of an area covering 7 million square kilometres. The ECO in its expanded form is now set to build up rapidly on the pillars of common history, culture, friendship and brotherhood and pave the way for the transformation of this region of great magnitude and potentials into a basis of effective and mutually beneficial cooperation.

(ii) To exploit the great potentials of the region, a number of other factors are required, including, (a) a continuous political will at the level of the member countries, and (b) formulation and implementation of projects into concrete co-operation schemes. The task at hand is not easy, but in order to face the challenge of producing an effective regional response to global trends and a suitable model for collective development, these two conditions are essential for success, since the world economy itself is currently undergoing a difficult phase of change which requires greater determination, adaptability, interdependence and cooperation.

(iii) Regional integration efforts among developing countries have changed considerably in recent years. While most new initiatives have not been fully implemented as a recent study shows, they differ from earlier schemes in three major ways (Melo *et al*, 1993):

- \* Less binding project-oriented cooperation schemes have generally replaced preannounced schedules for internal integration through free trade areas, customs unions, and common markets.
- \* Integration scheme members have been granted more leeway to liberalise at their own pace (which allows some members to proceed more rapidly than others), to negotiate bilateral preferences with partners sharing common sectoral interests, and to keep such agreements open for future participation by other members.
- \* Cooperation in physical infrastructure, such as communications and transport, and in such support areas as training, research, and technology has taken precedence over cooperation schemes for regional industrialisation planning.

The shift in emphasis from integration to cooperation is visible in all major regional groupings. Nearly all of the projects that are presently on the agenda of the ECO reflect this shift. This, in itself, however, does not guarantee successful implementation.

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