

## **ECONOMIC COOPERATION ORGANIZATION**

### **TRADE FACILITATION AND TRADE DEVELOPMENT STRATEGY**

Integration into the global economy is not just desirable but also a necessary and inevitable modality for ensuring economic viability and survival in a highly competitive global market place. The member states of ECO, therefore, need to devise and implement a strategy (preferably within WTO framework), which not only protect them from the negative effects of the globalization, but also help them to conform with the requirements of the global economic system. Different regional organizations have already made huge strides in fostering closer cooperation among their members in areas of trade facilitation. ECO members cannot afford to be left behind and are taking concrete steps to forge deeper cooperation for development for trade in the ECO region.

This task is full of challenges, stemming essentially from the inherent economic structures and policy frameworks of majority of the ECO member states. The ECO grouping includes a diverse range of economies, each at different stages of economic development, market and institutional maturity and openness to trade and investment flows. For a long time, most of the ECO member states remained closed and inward looking, discouraging foreign direct investment and imports with high tariff and non-tariff mechanisms. Problems involving customs rules and procedures often posed serious impediments to routine operations of businesses involved in intra-regional trade. These problems can impact unevenly on small and medium-sized enterprises which generally, do not have experience and resources to cope with. They can also impact adversely on foreign investment because investors in less-developed countries often rely on imported goods.

According to an UNCTAD study, import documentations and other formalities add from 7 to 10 percent to the cost of goods traded by the developing countries. The need for simplification and harmonization of customs rules and procedures and rationalization of tariff structures is quite apparent for ECO member states, many of whom are already suffering from high transaction costs.

In pursuance of these objectives, a number of projects and programs have been embarked upon during the past five years. These ECO projects and programs can broadly be categorized as under:

- **trade liberalization activities;**
- **trade facilitation and promotion activities;**
- **other projects / programs.**

The idea behind these projects/programs is to lay down the necessary regulatory framework, in a region-wide context, that facilitates and allows the business communities of the region to exploit the emerging opportunities.

## **(i) Trade Liberalization**

### **ECO Trade Agreement (ECOTA)**

1. The main thrust of the work in the field of trade liberalization has been towards the reduction of tariffs and removal of non-tariff barriers in the ECO region. While trade does not obviate the need for large scale supported development investments, an open and equitable trading system can be a powerful driver of economic growth in the ECO region, especially when combined with adequate political support. Therefore, implementation of ECOTA and relevant trade facilitation programs rightly lies at the heart of the trade development in the region. The ECO countries strive to dismantle market access barriers and begin phasing out trade-barriers in the region in order to pave the way for free-trade area.

2. ECOTA was signed by five Member States during the 2<sup>nd</sup> Ministerial Meeting on Commerce/Foreign Trade, held in Islamabad, Pakistan on 17 July 2003. Since then, the ECO Secretariat is pursuing for its implementation in the region through urging Contracting Parties to expedite ratification process and approaching to non-signatory Member States to be Party to it as soon as possible. This agreement will enter into force after the date of receipt of the instrument of ratification, acceptance, or approval from five Contracting Parties. Amongst the Contracting Parties, so far, only Pakistan and Tajikistan have ratified the said Agreement. Some member states are negotiating on adopting a fast-track approach which foresees further reduction to the highest tariff slab from 15% to 10% within five years time instead of eight years.

3. The 1<sup>st</sup> High Level Expert Group (HLEG) meeting on Trade and Investment, held in Ankara, Turkey on January 13-15, 2004 recommended adopting a “Fast Track Approach to ECOTA”. Although, signing of the Protocol on fast-track was included in the agenda of the 3<sup>rd</sup> Ministerial Meeting on Commerce/Foreign Trade (July 7, 2005) held in Istanbul, Turkey, it could not be realized due to some reservations raised. The 4<sup>th</sup> HLEG meeting to be held on 9-10 November, in Kabul, will resolve controversial issues so that the Member States could sign the Protocol at the earliest.

4. The 3<sup>rd</sup> Ministerial Meeting on Commerce/Foreign Trade approved and signed a “Protocol for the annexes of ECOTA on (i) ECO Rules of Origin (ii) Anti-Dumping Measures, (iii) State Aid, and (iv) Intellectual Property Rights”. The said Protocol was signed by four Member States, i.e. Afghanistan, Iran, Pakistan, and Turkey. Moreover, Pakistan has already ratified the said Protocol. This achievement will facilitate signature/or ratification process of ECOTA with its annexes by the Member States.

## **(ii) Trade Facilitation**

### **Transit Trade Agreement (TTA) and Transit Transport Framework Agreement (TTFA)**

5. TTA was signed in 1995 (except Afghanistan and Uzbekistan) and ratified by all the signatory member states. It is not fully implemented. Initially, in face of difficulties for new ECO member states to become a party and implement the TIR Convention, TTA

aimed to facilitate trade between two member states via transit through other member states. It is applicable to road, railway, sea, air or any combination of them. Goods transported under the Agreement are not subject to import/export duties and taxes. Guaranteeing Associations undertake to pay duties/taxes and default interest due under the customs law/regulations of the country in which an irregularity has been committed. Goods shall not be subject to examination through Customs en route. Customs offices will accept the validity of ECO Passage Document in order to avail facilities under the Agreement. Guaranteeing Associations will act as the guarantor of the transit system. Transit Trade Committee comprising of one representative from each signatory member state will monitor the implementation, make procedures, and resolve any disputes arising out of the operation. Guaranteeing Associations have been nominated (except by Azerbaijan and Turkmenistan). ECO Passage Document has been finalized (except Authorization for Natural and Legal Persons to utilize EPD). Technical standards of vehicles have been approved. ECO Road and Railway Maps have been prepared, to be approved by the member states.

6. Prospects and challenges for TTA are: (i) minimum conditions and requirements (i.e. authorization) for natural and legal persons to utilize EPD shall be adopted by the member states; (ii) printing, distribution, and monitoring of EPD; (iii) establishment of a Regional Guarantee System which will ensure that all duties and taxes are covered either by the transport operator or by the national guarantee associations of the Member States; (iv) capacity building in Guaranteeing Associations; (v) activation TTC for monitoring the Agreement; (vi) collecting data on transit volume, clearance time and problems; (vii) involving freight forwarders and transporters and ECO Chambers in implementation of the Agreement.

7. Other physical and regulatory requirements can be summarized as: (i) improvement of facilities and infrastructure in border crossings ; (ii) alignment of working hours in border crossings; (iii) simplification of customs transit procedures; (iv) harmonization of technical requirements of vehicles; (v) reducing high and diverse transit charges; (vi) making transit rules and procedures transparent and stable.

8. Implementation of Transit Transport Framework Agreement (TTFA) which was signed in 1998 is other important issue. TTFA being in line with current developments that more and more ECO member states strive is ready to become a party to the TIR convention, in time, has gained an upper hand over TTA and now preference is given for its early implementation. However TTA is not shelved until the TTFA enters fully into power. TTFA covers all modes of transportation including insurance and other related issues. The Secretariat has emphasized on the importance of the ratification of this agreement in several meetings as well as in its contacts with the relevant officials of the Member States. So far, five member countries namely Azerbaijan, Kazakhstan, Kyrgyzstan, Pakistan, and Tajikistan have ratified the agreement. Afghanistan unofficially has informed the Secretariat about ratification of TTFA in that country. In addition, the Secretariat has requested the Member States to introduce their nominees for Transit Transport Coordination Council (TTCC), which will monitor and follow implementation of TTFA. Azerbaijan has recently agreed to be the coordinator country for the implementation of TTFA.

## **ECO Customs Cooperation**

9. Customs and Transit Trade cooperation also plays an important role in the economic cooperation among the ECO Member States. The 4<sup>th</sup> meeting of the ECO Council of Heads of Customs Administration (CHCA), held in Baku, Republic of Azerbaijan, on May 16-18, 2005 finalized the text of the draft Agreement on establishment and operation of the ECO Smuggling and Customs Offences Data Bank. The said Agreement was approved by the Member States and initially signed by Afghanistan, Pakistan, and Turkey during the 3<sup>rd</sup> Ministerial Meeting on Commerce and Foreign Trade. Recently, we have acknowledged the willingness of Kyrgyzstan to sign the said agreement. This Agreement would come into force upon signature/ratification of at least four ECO Member States. To this end, an action plan will be prepared in coordination with Turkey (host of Data Bank) leading to the operationalization of the Data Bank.

10. The 4<sup>th</sup> meeting of ECO-CHCA also reviewed a UNDP Consultant report on simplification and harmonization of customs procedures and agreed to form a working group of experts to further consider actions on the recommendations of the Consultant. Cooperation with WCO within the framework of MOU signed between ECO and WCO, cooperation with ADB and customs cooperation among the ECO Member States were also reviewed during the said meeting. Member States were requested to provide their customs news/material to Islamic Republic of Iran Customs Administration (IRICA) on regular basis for publication in the ECO Customs Newsletter. The Council elected the Head of Turkish Customs Administration as its next Chairman and the First Deputy Chairman of State Customs Committee of Azerbaijan as its Vice-Chairman.

11. Exchange of updated data/information relating to trade and investment among the ECO Member States has gained special significance. In this regard, ECO has held several seminars. The 3<sup>rd</sup> ECO Seminar on Trade and Investment Information Networking held in Karachi, Pakistan on 31<sup>st</sup> January-01 February 2005 was the latest. In this Seminar, ECO Member States actively participated and agreed to designate fresh Focal Points on Trade and Investment for prompt exchange and presentation of relevant data/information through the interactive ECO Web portal ([www.tradeeco.org](http://www.tradeeco.org)), which was developed with financial assistance of UNDP. The said Web portal is being upgraded time-to-time taking into account the recommendations of ITC Expert who participated in the abovementioned Seminar. Moreover, utilization of ECO Feasibility Fund is being proposed to Council of the Permanent Representatives (CPR) for this purpose.

12. There is an urgent need to follow the effective implementation and further updating/expanding the scope of the agreement on simplification of visa procedures for the businesspersons of the Member States to further facilitate the contact and communication among the citizens of the Member States. In this regard, the CPR approved that the Islamic Republic of Iran, as a coordinator, to host the 1<sup>st</sup> Experts Group Meeting (EGM) to revise the Agreement on Simplification of Visa Procedures for the Businessmen of ECO Member States.

## **Harmonization, Standardization and Recognition**

13. The enforcement of industrial standards in the region in line with the international standards and improvement of quality management systems according to International Standards Systems (ISS) is another priority area that is highlighted in the ECO Plan of Action for Industrial Cooperation. In this regard, the Republic of Turkey, in collaboration with the ECO Secretariat, organized a Workshop on Standardization, Conformity Assessment, and Accreditation for ECO Member States on 25-26 August 2004 in Ankara. The First Experts Group Meeting on Standardization, Conformity Assessment, Accreditation, and Metrology was held in July 2005 in Istanbul and finalized the draft Statute of the ECO Regional Organization for Standardization, Conformity Assessment, Accreditation and Metrology (ROSCAM) and the draft Regional Cooperation Strategy for ROSCAM. The First Meeting of the Heads of Standardization Organizations to be held in 2005 in Tehran will consider the above-mentioned Statute and Strategy.

### **(iii) Other projects / Programmes**

#### **ECO/ITC Project for Trade Promotion**

14. The ECO/ITC launched a joint project aimed at expanding intra-regional trade. The Project's primary focus was on identification of trade opportunities in the region and creation of an enabling environment for their ultimate realization by bringing together buyers and sellers of selected product groups. ECO/ITC have already completed the first cycle of the project i.e. carried out a Trade Flow Analysis, held a Product Selection Workshop, prepared a priority list of products, conducted Supply and Demand Surveys in respect of the selected product, held three Buyers/Sellers Meetings, and organized a Business Forum. The 2<sup>nd</sup> phase of the project will also start in near future. The Member States have endorsed the utilization of US\$ 50,000- out of ECO Feasibility Fund with the contribution of other donors for the said project. Devising a regional trade and investment strategy and capacity building of ECO-CCI will be at the core of the 2<sup>nd</sup> phase of the project.

#### **ECO Chamber of Commerce and Industry**

15. Since April 2004, ECO-CCI Chairmanship is with the Afghan Chamber of Commerce and Industry (ACCI). The aim is to make ECO-CCI an effective body of ECO through reactivating ACCI with the technical support of Member States. The Trade and Investment Conference, 10<sup>th</sup> Executive Committee Meeting of ECO-CCI, and ECO-CCI Trade Fair are scheduled to be held simultaneously in Kabul, Afghanistan on 9-10 November 2005. The ECO-CCI, Afghanistan Investment Support Agency (AISA) and Ministry of Commerce of the Islamic Republic of Afghanistan are actively working for efficient convening of these events in a befitting manner with the assistance of international agencies/organizations based in Kabul.

16. The First ECO Business Forum was held in October 2002 in Istanbul. Keeping its importance in the promotion of trade and business activities in the region, the Business Forum will be institutionalized and its meetings are to be held on a regular and rotational

basis. The Secretariat is now looking for an appropriate occasion to organize the said Forum in 2006.

### **Investment Promotion**

17. It should be stressed that ECO countries, particularly the landlocked Member States, which rely on a few commodity products and trade routes, also face supply-side problem, which manifests itself in a lack of capacity to diversify exports, a vulnerability to price fluctuations and a decline in terms of trade. Therefore, in order to build trade competitiveness, recently finalized ECO Agreement on Promotion and Protection of Investment among Member States should be implemented towards promoting investments projects in sectoral productivity, particularly trade-related infrastructure, and competitive export industries. In fact, encouraging diversification, and reducing vulnerability to commodity price fluctuations, where support for them in the region has fallen far short of what is necessary.

18. ECO Trade and Investment Conference will be held in Kabul, Afghanistan on 9-10 November 2005. The main theme of Conference will be "Private Sector Promotion in Afghanistan and Regional Development". Besides the delegations from member states, the representatives of ITC, ADB, IDB, UNDP, UNCTAD, UNESCAP, and other relevant regional/international organizations are expected to participate this Conference.

### **ECO Trade and Development Bank & ECO Reinsurance Company**

19. Iran, Pakistan, and Turkey are the signatories to an Agreement for the establishment of the ECO Trade and Development Bank (ECO-TDB). The said agreement was recently ratified by the Parliament of the Islamic Republic of Iran. Thus, completion of ratification process by three signatory Member States will pave the way for the establishment of said Bank. In coming days we were expecting the announcement of the 1<sup>st</sup> Meeting of the Board of Governors, payment of the initial installments of the bank's capital, appointment of the president and directors of the Bank and the preparation of the Business Plan.

20. Iran, Pakistan, and Turkey are also signatories to a Memorandum of Understanding on establishment of the ECO Reinsurance Company but the Articles of Agreement of the Re-insurance Company remain to be signed. The lacunas pointed out by Islamic Republic of Pakistan and Republic of Turkey in the Draft Articles of Agreement for the establishment of ECO Reinsurance Company, were considered/discussed in the joint Trilateral Interim Committee (TCI) meeting held at the ECO Secretariat, Tehran, on February 17, 2005 and most of them were removed.

21. ECO is in need of more permanent body like a trade facilitation working group comprised of representatives from both the government and private sector to raise issues and work towards solutions.