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## Pakistan in the Economic Cooperation Organization

*On 1 March 2017, Pakistan hosted the 13<sup>th</sup> Economic Cooperation Organization (ECO) Summit. This paper analyses Pakistan's involvement in the ECO. It acknowledges the desire of the leaders of the ECO to boost trade volumes and regional connectivity. The paper makes the case that this can only be achieved by developing infrastructure and implementing transit trade agreements. It further contends that Pakistan, as a state, has multi-regional characteristics which allow it to play an instrumental role in bridging regions.*

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### Introduction

The Economic Cooperation Organization (ECO) is a regional grouping that was first established in 1985. It was initially a trilateral organisation consisting of Pakistan, Turkey and Iran. At the time of its genesis, the ECO was meant to be a revival of the Regional Cooperation for Development (RCD) which existed from 1946 to 1979. The RCD was dissolved following the fall of the Shah of Iran.

On 28 November 1992, the ECO was expanded to include Afghanistan and six other newly-independent former Soviet Union republics as member states (Azerbaijan, Kazakhstan,

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Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan). This transformed the ECO into its current form as a 10-member state organisation. The countries in the ECO share common socio-cultural, religious, linguistic and historic affinities. As all ECO members are Muslim majority countries, the organisation can be seen as a sub-grouping of the Organization of Islamic Cooperation. Developing cordial relations with all Muslim majority countries has always been an element of Pakistan's foreign policy.

It is noteworthy that Pakistan has strong bilateral relations with all ECO member states. However, the most antagonistic relations it has is with Afghanistan.

On 1 March 2017, Pakistan successfully hosted the 13<sup>th</sup> ECO Summit in its capital city, Islamabad.<sup>2</sup> The event was attended by presidents, prime ministers or, at least, deputy prime ministers, in the case of some countries. However, Afghanistan was only represented by its Special Envoy to Pakistan, Ambassador Hazrat Omar Zakhilwal.<sup>3</sup> This was the lowest level representation deployed by any member state to the ECO Summit, thus making Ambassador Zakhilwal the odd one out in this gathering of presidents and prime ministers. This might be seen as an indicator of the priority that Afghanistan's President Ashraf Ghani attaches to the ECO Summit.

The focus of the Islamabad Summit is reflected in the theme "Connectivity for Regional Prosperity." The ECO area bridging Central and South Asia is of vital importance in materialising China's dream of restoring the ancient Silk Route through its One Belt, One Road initiative. Hence, it can be understood why China and the United Nations were invited to the ECO Summit as "Special Guests". This is evident from Prime Minister Nawaz Sharif's opening address where he said, "The choice of our Special Guests has direct salience to the theme of this Summit."<sup>4</sup>

He also stated, "The ECO region is not an insignificant geographical area. It represents a vast expanse of territory that is home to nearly a sixth of all humanity. Though the region has enormous potential, and accounts for 16 per cent of the world's population, we generate only two per cent of the world's trade. And, trade within the ECO region is a small fraction of our

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<sup>2</sup> "13<sup>th</sup> Summit of the Economic Cooperation Organization (ECO Islamabad, 1 March 2017)." Ministry of Foreign Affairs – Islamabad, Pakistan, [www.mofa.gov.pk/pr-details.php?mm=NDgWOA%2C%2C](http://www.mofa.gov.pk/pr-details.php?mm=NDgWOA%2C%2C)

<sup>3</sup> Ibid.

<sup>4</sup> "Statement by the Prime Minister for the Inauguration Session of the Summit." Prime Minister's Office, Islamabad, Pakistan, [www.pmo.gov.pk/press\\_release\\_details.php?pr\\_id=1714](http://www.pmo.gov.pk/press_release_details.php?pr_id=1714)

trade with the rest of the world.”<sup>5</sup> The low levels of intra-ECO trade can be attributed to the pre-existing lack of infrastructure connecting the bigger ECO countries; Pakistan, Iran and Turkey to the Central Asian republics in the ECO, and security issues in the region.

In order to expand commerce activities within the ECO, there needs to be trade routes available for the transportation of goods and services. There are two factors that must be fulfilled to facilitate trade and human movement in the region – infrastructure and transit-trade agreements.

Without sufficient infrastructure in place, trade, especially for land-locked countries, becomes physically obstructive. Building infrastructure is the foundation for regional cooperation to take place. This must be complemented by political mandate in the form of transit-trade agreements which is, in fact, the soul of inter-state trade routes while infrastructure is its body.

## **Increasing ECO Trade Volume**

The optimism to increase ECO trade volumes is explicitly mentioned in the ECO Vision 2025 which, as a strategic objective, aims “to double intra-regional trade, increase ECO share in the global trade and specifically exports, and tap regional trade potential for economic growth.”<sup>6</sup> The global ECO trade volume reached US\$648 billion in 2015.<sup>7</sup> As stated in the ECO Vision 2025, “This included exports of US\$285 billion and imports of US\$363 billion. The ECO is a net importer from the world with a negative trade balance of US\$78 billion. A large part of this can be diverted to ECO countries if the ECO Trade Agreement (ECOTA) is operationalised. In 2015, total intra-ECO trade was US\$58 billion which, at nine per cent, is far below its true potential.”<sup>8</sup>

This gives the ECO leaders a desire to increase intra-ECO trade so as to transform the collective ECO trade deficit into a surplus. To achieve this, there has to be incentives for import substitution, that is, business, governments and people within the ECO area must have

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<sup>5</sup> Ibid.

<sup>6</sup> “ECO VISION 2025.” Ministry of Foreign Affairs - Islamabad, Pakistan, [www.mofa.gov.pk/pr-details.php?mm=NDgwNw%2C%2C](http://www.mofa.gov.pk/pr-details.php?mm=NDgwNw%2C%2C)

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

a reason to import from another ECO country rather than from outside the ECO. As such, the ECOTA will act as a catalyst to boost intra-ECO trade.

The lead role to reduce the ECO trade deficit has to be taken on by Pakistan, Turkey and Iran which form the core thrust of the region. These three countries need to structure their economies to become the major export hubs of the ECO region. The Central Asian republics should then seek to remove non-tariff trade barriers with these three countries. They should also explore the option of bilaterally negotiating free trade agreements with Pakistan, Turkey and Iran while putting in place essential safeguards to protect their key national industries. This will promote economic growth in the ECO area.

An observation of contemporary geopolitics shows that, with the election of United States President Donald Trump, Brexit and the rise of right-wing politicians in western democracies, the world is moving away from free trade and embracing protectionism. This calls for increased regionalism in the Afro-Asia world which can be used as alternative trading blocks. In such a new global order, countries such as Pakistan should tap more on its geostrategic potential and seek export markets closer to home rather than compete in faraway countries for export revenue. The ECO region thus offers Pakistan a viable bazaar to sell its exports. It is also the shared vision of all ECO members to transform the region into a highly active trading hub.

## **Transit Trade Agreements**

A transit trade agreement allows Country A to import/export its goods across the territory of Country B to a third Country C without paying duty charges that would have been otherwise levied if the goods were destined to be sold in the markets of Country B.

A transit trade agreement is especially required when dealing with countries that are non-signatories to the United Nations TIR convention (Transports Internationaux Routiers/International Road Transport). The TIR Convention provides parties transit trade rights in the same manner granted by transit trade agreements. On 21 January 2016, Pakistan became the last member of the ECO to join the TIR Convention, thus contributing to its

integration into the ECO region.<sup>9</sup> China is the latest country to join the TIR Convention on 5 January 2017.<sup>10</sup> Afghanistan and Pakistan are the only signatories of the TIR Convention from South Asia. If India and the other South Asian countries join the TIR Convention, it would link the ECO to the South Asian Association for Regional Cooperation (SAARC) and will also boost trade volumes between the ECO and SAARC.

There are three transit trade agreements that need to be analysed to gain an understanding on the dynamics of inter-state ECO trade. These are the Afghanistan-Pakistan Transit Trade Agreement (APTTA), Quadrilateral Transit Traffic Agreement (QTTA) signed between Pakistan, China, Kazakhstan and Kyrgyzstan, and the India-Iran-Afghanistan Trilateral Agreement on Transport and Transit Corridor.

It must be noted that these agreements were signed before Pakistan and China became members of the TIR Convention.

Pakistan negotiated the APTTA under the reign of the previous Pakistan People's Party (PPP) government of the former Prime Minister Yusuf Raza Gilani. In July 2010, during the visit of the then-United States (US) Secretary of State Hilary Clinton, an memorandum of understanding on the APTTA was signed by the Commerce Ministers of Pakistan and Afghanistan, paving the way for the actual agreement that was inked later in October 2010. The APTTA allows Afghanistan to use Pakistani territory to import and export its goods via Pakistan's seaports, land ports and airports. It also allows Afghanistan to export its goods to India through the Wagah border. However, under the agreement, Afghanistan is not allowed to import goods from India using the border. The Afghan trucks are only permitted to load Pakistani goods on their return trip to Afghanistan. If the Afghans wish to import from India using the Wagah border, they may still do so. However, they will have to pay tariff charges on the Indian goods to Pakistan Customs even though the final destination of the goods may be to Afghanistan. The APTTA allows Pakistan to use Afghanistan's territory to transit both its exports and imports to any country bordering Afghanistan. Afghan President Ashraf Ghani has threatened to revoke reciprocity to Pakistan if it continues not to allow Afghanistan to import Indian goods from Wagah under the APTTA.

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<sup>9</sup> "Pakistan joins the United Nations TIR Convention." [www.unece.org/info/media/presscurrent-press-h/transport/2015/pakistan-joins-the-united-nations-tir-convention/pakistan-joins-the-united-nations-tir-convention.html](http://www.unece.org/info/media/presscurrent-press-h/transport/2015/pakistan-joins-the-united-nations-tir-convention/pakistan-joins-the-united-nations-tir-convention.html).

<sup>10</sup> China's accession to the United Nations TIR Convention opens prospects for new international trade routes. [www.unece.org/info/media/presscurrent-press-h/transport/2016/chinas-accession-to-the-united-nations-tir-convention-opens-prospects-for-new-international-trade-routes/doc.html](http://www.unece.org/info/media/presscurrent-press-h/transport/2016/chinas-accession-to-the-united-nations-tir-convention-opens-prospects-for-new-international-trade-routes/doc.html).

Some criticisms of the APTTA in Pakistan included the idea that by letting Afghanistan export to India, Pakistan has conceded to Afghanistan part of its own market share of exports to India. If Pakistan permits Indian exports to transit Pakistan into Afghanistan, the situation would be even worse, as Pakistan would then have to compete with India for exports to Afghanistan and Central Asia.

The necessity of Afghanistan for overland trade has also been put into question as, in the first place, the lack of infrastructure and security issues due to militancy in Afghanistan makes it an unattractive route to embark upon. Secondly, Pakistan's trade volume with Central Asia has been extremely low, "Pakistan's exports to Central Asia account for approximately 0.05 to 0.06 per cent of its total exports."<sup>11</sup> Moreover, the China Pakistan Economic Corridor (CPEC) and the QTTA provide Pakistan alternative routes to Central Asia. Iran's Chabahar port also provides Afghanistan a viable source for trade with India, safeguarded by the India-Iran-Afghanistan Trilateral Agreement on Transport and Transit Corridor. It is significantly more convenient for Afghan traders to procure Indian exports from Iran instead of Pakistan. These factors, therefore, place the f the APTTA on the verge of dissolution.

The QTTA is another transit trade agreement signed between Pakistan, China, Kazakhstan and Kyrgyzstan on 9 March 1995.<sup>12</sup> Although this agreement was signed more than two decades ago, there has been lack of utility of this provision for transit trade due to undeveloped infrastructure. "The QTTA provides Pakistan a gateway to Central Asia without passing through the territory of Afghanistan, instead designating the Karakoram Highway through China as a transit corridor."<sup>13</sup> On the sidelines of the ECO Summit in Islamabad, Prime Minister Nawaz Sharif held talks with Tajikistan's President Emomali Rahmanov. They reaffirmed support for the in-principle approval of Tajikistan's accession to the QTTA.<sup>14</sup> Once Tajikistan is included, the QTTA would have to be renamed as it would no longer be "Quadrilateral" but rather a "Pentalateral" agreement.

Bilateral relations with Tajikistan are of high importance for Pakistan as it is less than fifty kilometres away from Pakistan's Gilgit-Baltistan province via Chinese territory. Thus,

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<sup>11</sup> "Analysis of Quadrilateral Traffic in Transit Agreement (QTTA)." US Aid, [www.pdf.usaid.gov/pdf\\_docs/PA00K24C.pdf](http://www.pdf.usaid.gov/pdf_docs/PA00K24C.pdf)

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> "Meeting of the Prime Minister with the President of Tajikistan." Prime Minister's Office, Islamabad, Pakistan, [www.pmo.gov.pk/press\\_release\\_details.php?pr\\_id=1715](http://www.pmo.gov.pk/press_release_details.php?pr_id=1715).

Tajikistan is Pakistan's geographically-closest Central Asian neighbour. Given the strained relations between Pakistan and Afghanistan, Tajikistan would be Pakistan's main point of entry into Central Asia.

## **Conclusion**

Pakistan's strategic location situated between South, Central and West Asia makes it a crucial player in fostering regional connectivity in the ECO. In November 2016, Pakistan was scheduled to host the SAARC Summit which was called off due to the boycott orchestrated by India, protesting against cross-border terrorism. This ECO Summit which was hosted in Islamabad symbolises that Pakistan is a South Asian state with a multi-regional identity. The "no-talks posture" that India has adopted as its Pakistan policy to put pressure on Pakistan to stop "cross-border terrorism" has undoubtedly hindered regional cooperation in South Asia. To date, SAARC remains the world's least integrated region. The ECO provides Pakistan a substitute region to operate in as long as SAARC remains dysfunctional.

Developing infrastructure and implementing transit-trade agreements are key requirements to achieve the ECO's goals of boosting trade and regional connectivity.

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