

# Economic Cooperation Organization's Trans-Regional Integration Based On Open Regionalism

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## 1. Introduction

Economic Cooperation Organisation (ECO) as a regional economic organization has remarkable achievements since the treaty of Izmir, and then since 1992 after the accession of Azerbaijan and five Central Asian Republics. Though the region confronts numerous challenges ranging from socio-economic under-development to security issues and unfavorable integration circumstances due to the involvement of major powers with their competing and conflicting interests it is a region that economically develops. The economic development of a region is not a matter of years, it takes decades and sometimes it may take a century or more, closely related to the level and degree of regional economic integration and cooperation. Each region's growth path is a function of many factors unique to it. In comparison with Europe, the phenomenal natural resource endowment and production of much wanted agrarian products like cotton and grain in this contiguous ECO landmass could not be overlooked. Importantly, resource endowment varies from country to country and there are differences in resource possession intra-regionally which induces states to integrate regionally and inter-regionally. The successful transformation of hydrocarbon resources and other comparative advantages into inclusive regional economic development depends on integrating isolated and fragmented demand and supply markets intra-ECO as well as inter-regionally. Shared growth and peace promotion are the natural outcomes of regional integration. Regional integration expedites the process of the economic rise of the region while the lack of it postpones the

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process. It has been pointed out in a study that Japan lost the status of the world's second-largest economy due to a lack of quest for regional integration.

Prof. Bjorn Hettne, a Swedish professor has very rightly opined that the peripheral regions of South and Central Asia and the Middle East need to be regionalized to overcome the issues of turbulence, socio-economic underdevelopment, war-proneness and to arrest the process of marginalization.<sup>1</sup> This particular paper is an attempt to highlight the significance of regionalism i.e. regional integration and cooperation, to describe open regionalism; to differentiate it from close regionalism, to ponder upon the importance of cross border connectivity infrastructure and ECO's achievements in this regard and to deliberate and analyze the ECO's regional and intra-regional integration in the framework of open regionalism. The methodology is descriptive in nature using secondary data, published and unpublished.

## 2. Globalization versus Regionalization

Globalization has its genesis in the post-World War II (WWII) period when the international establishment, in the form of the International Monetary Fund (IMF), the World Bank, World Trade Organization (WTO) and Multi-National Companies, was in making on the basis of capitalism; free movement of goods and services (free market) which in turn originated from Adam Smith's theory of "Laissez-faire". Capitalism is exploitative in nature as the class difference is its main feature and profit-making is the sole consideration while utilizing means of production. The core region (North/West) has been keeping the peripheral region (South) in a perpetual recession. During 1982-1989, \$155 billion moved from south to north in the form of debt servicing, the profit of MNCs, and by selling public sector enterprises.<sup>2</sup> It is clear that IMF or World Bank has no role in the developed economies of Europe, Japan, China, South Korea, and Taiwan, and many social and political scientists as well as economists

<sup>1</sup> Bjorn Hettne, "Globalization, the New Regionalism and East Asia," in *Globalism and Regionalism*, ed. Oshiro Tanaka and Takashi Inoguchi (Tokyo: United Nations University, 1996).

<sup>2</sup> Khalil ur Rehman, "The Impact of Structural Adjustment Programmes (Saps) On Human Development: A Case Study of India" (M.Phil. thesis, Quid e Azam University, 2000), 19.

have criticized globalization for its selectiveness and exploitation.<sup>3</sup> Therefore various regions and their constituent states now realize the importance of regional integration to compete successfully and efficiently in the global trade and economic system. ECO is not an exception.

Regional integration or regionalism refers to organized, harmonized, and coordinated cooperation amongst the regional countries. Traditionally, regionalism revolved around a kind of economic and trade cooperation amongst regional states that imposed restrictions and adopted protectionist measures against non-regional or non-member states in the form of a Customs Union, Common Market, or Economic Union having a common currency. However open regionalism as explained below does not carry or impose discriminatory measures against non-regional states. Therefore this work argues that regional integration based on open regionalism is the best approach to tackle the challenges of globalization and to stop the process of further marginalization of regional states by the core region's globalization.

### 3. Open Regionalism: The Theoretical Framework

The term 'open regionalism' was coined by an Australian Professor, John Crawford in the 1980s during a seminar. According to him "Open regionalism is a project/sector or activity-based bilateral or multilateral cooperation between or amongst regional states" as quoted by Sutton Michael.<sup>4</sup> Prof. John Crawford emphasized a kind of regional economic trade cooperation that is outward-oriented and enabling regional states to successfully and efficiently integrate and compete in the global trade and economic system. Regionalism enhances the region's competitiveness and attractiveness in global trade and economic systems as it reduces financial vulnerabilities at the regional level.<sup>5</sup> Open regionalism in contrast to close regionalism does not carry any instrument of exclusion or discrimination nor it imposes any restriction, protectionist measures on non-member or

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<sup>3</sup> Shabir Ahmad Khan, "Regional Integration in Central and South Asia: Open Regionalism", *Journal Central Asia* 80, (Summer 2017): 1-14.

<sup>4</sup> Sutton Michael, "Open Regionalism and the Asia Pacific: Implications for the Rise of an East Asian Economic Community," *International Affairs*, no.5 (2007).

<sup>5</sup> Haruhiko Kuroda, "Infrastructure and Regional Cooperation", *Annual Bank Conference on Development Economics*, (Tokyo: Asian Development Bank, 2007), <https://www.adb.org/sites/default/files/publication/156715/adb-dp76.pdf>

non-regional states to limit their access to the regional-states' markets and vice-versa. Open regionalism has been advocated to address the potential conflicts between globalization and regionalism. The concept attempts to explain that regional trade arrangements are building blocks for further liberalization of global trade rather than a stumbling block in global free trade as embodied by the WTO.<sup>6</sup> It is a project/sector-specific regional integration arrangement that can be a bilateral, trilateral, or multilateral integration arrangement of regional states. Any country can join a single project or sector and likewise, a country can join many projects/activities simultaneously. In contrast to close regionalism, open regionalism does not emphasize supra-national institutions and is neither a custom union nor an economic union of a common currency.

The ECO region has already framed regional integration arrangements in the form of bilateral, trilateral, and multilateral cooperation agreements in the fields of transport, trade, power, and energy. It includes Iran-Pakistan (IP) gas pipeline; and any other country like China or India can join it, Afghanistan-Pakistan Transit Trade Agreement (APTTA), Quadrilateral Transit Trade Agreement, Central Asia-South Asia (CASA) electricity project, Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, Islamabad-Tehran-Istanbul Corridor (RCD Highway), Kyrgyz-Tajik-Afghan-Iran Corridor, etc. It is worth mentioning that peace in Afghanistan would be a catalyst in ECO integration and will highly accelerate the economic rise of the entire ECO region for shared growth and prosperity.

#### **4. ECO Cross Border Infrastructure and Trans-Regional Integration**

Regardless of the kind of regionalism whether open or close, cross-border infrastructure is a pre-requisite for regional and inter-regional integration. Cross border infrastructure refers to the development of both components, software, and hardware, of inter and intra-regional connectivity. Soft infrastructure is the standardization of rules, laws, and procedures or in other words harmonization and coordination of political and economic policies through institutions for smooth cross-border movement of goods, services, and human capital. Harmonization addresses the policy's content regarding tax,

<sup>6</sup> C. Fred Bergsten, "Open Regionalism", *Peterson Institute for International Economics*, Working Paper 97-3 (January 1997).

tariff, prices, transit fee, and quantity, legal as well as a regulatory framework while coordination addresses the time consistency issue. Hard infrastructure refers to physical connectivity infrastructure inter as well as intra-regionally. Both complement each other in the context of regional and trans-regional integration. However, cross-border physical connectivity infrastructure is the core of the process in my opinion. The need for standardization of rules, regulations, laws, and procedures amongst regional states arises when physical connectivity infrastructure is developed across borders. Similarly, harmonization and coordination of trade and economic policies intra-ECO can be achieved when cross-border physical connectivity infrastructure is established. Roads, rails, energy pipelines, power transmission lines, linking land, sea, and airports inter and intra regionally is vital to transform the natural resources of the ECO member states into inclusive development. Further, each region's growth path is a function of many factors unique to it. In the ECO region, the advantages of having huge hydrocarbon resources, other precious minerals, metals and producing much wanted agrarian products like cotton and grain cannot be overlooked. The aim must be to link isolated and fragmented demand and supply markets intra-ECO as well as inter regionally.

ECO countries have reasonable achievements in the context of cross border physical connectivity infrastructure development. ECO Road Route 1A starts within Turkey along with its borders with Bulgaria and Greece in the West, it traverses in the Northern parts of Turkey reaches to Iranian border near Agri, continues in south-eastern direction enters Pakistan reaches Quetta, continues south to Rohri and in north-eastern direction reaches Lahore via Multan ultimately up to India's borders.<sup>7</sup> The ECO Road 1B starts from Turkey and proceeds via Iran and Afghanistan, reaches Tajikistan, and reaches China's border. It can be extended to Almaty, Kazakhstan up to the borders of China. This route has also branches which lead to the ports of Pakistan via Herat, Afghanistan. The ECO Road Route 2 similarly starts from Bulgaria and Greece and travels via Tehran, Ashgabat, Tashkent, Bishkek, and Almaty and reaches to the Chinese border.<sup>8</sup>

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<sup>7</sup> ECO. "ECO Road Network Development Plan", December 2012, accessed on August 29, 2019, [http://www.eco.int/parameters/eco/modules/cdk/upload/content/general\\_content/3512/1500291306332k6uqkccfcocgv3ppqr8b2rjem6.pdf](http://www.eco.int/parameters/eco/modules/cdk/upload/content/general_content/3512/1500291306332k6uqkccfcocgv3ppqr8b2rjem6.pdf).

<sup>8</sup> ECO. "ECO Road Network Development Plan", December 2012.

The ECO Road Route 3 starts from Azerbaijan's border with Russian Federation via Baku reaches Tehran up to Bandar Abbas. Its branches also go to Turkmenistan and Kazakhstan. Likewise, the ECO Network Road Route 4, 5, 6, 7 according to the ECO Road Network Development plan connects all ECO members from Kazakh borders with Russia linking all other Central Asian Republics up to Karachi and Gwadar ports of Pakistan.<sup>9</sup>

ECO container train between Islamabad, Tehran, and Istanbul became operational in 2010 with a total length of 6543 km.<sup>10</sup> The Rail Route 1 starts from Turkey and reaches up to Wagha, Pakistan's border with India across Pakistan. The ECO Rail route 2A traverses Turkey, Iran, Turkmenistan, Uzbekistan, and Kazakhstan up to China's border.<sup>11</sup> Intra-ECO integration is one of three core principles of ECO vision 2025 as per the declaration of ECO Summit 2017 in Islamabad and the ECO vision 2025 Implementation framework document.<sup>12</sup> For sustainable energy security, enhanced trade, and higher living standards, ECO transport corridors need to be operationalized as planned in ECO Vision 2025.

Infrastructure connectivity plays a crucial role in enhancing regional cooperation and integration. Therefore funding infrastructure projects need to be emphasized and prioritized by ECO member states. Intra-ECO production network can be developed in the fields of textile, leather and automobiles, food processing. Unfortunately, the intra-ECO trade is still even not a fraction of its true potential due to poor cross-border connectivity infrastructure and tiresome border crossings. By 2014, East-Asian economies' external trade escalated to 56.4% which means that East Asia does more than half of its external trade with itself.<sup>13</sup> However, intra-ECO trade constitutes

<sup>9</sup> ECO. "ECO Road Network Development Plan", December 2012.

<sup>10</sup> Ahsan Ali Mangi, "16th Meeting of TSCC", Tbilisi, 12-18 May, 2017, accessed September 15, 2019, <https://www.carecprogram.org/uploads/2017-16th-TSCC-Summary.pdf>

<sup>11</sup> Dimitriou Tsamboulas, "ECO Railway Network Development Plan", June 2012, accessed on August 26, 2019, [http://www.eco.int/parameters/eco/modules/cdk/upload/content/general\\_content/3512/1500291290659k6uqkccfcocgv3qqqr8b2rjem6.pdf](http://www.eco.int/parameters/eco/modules/cdk/upload/content/general_content/3512/1500291290659k6uqkccfcocgv3qqqr8b2rjem6.pdf).

<sup>12</sup> ECO. "ECO Vision 2025 and implementation Framework", February 2017, accessed August 27, 2019. [http://www.eco.int/parameters/eco/modules/cdk/upload/content/general\\_content/3624/1506486491201cfnbtm0acra83f5arho4dgc65.pdf](http://www.eco.int/parameters/eco/modules/cdk/upload/content/general_content/3624/1506486491201cfnbtm0acra83f5arho4dgc65.pdf).

<sup>13</sup> Hong Yu, "Infrastructure Connectivity and Regional Economics Integration in East Asia: Progress and Challenges" *Journal of Infrastructure, Policy and Development*, 1, no.1, (2017): 44-63.

only 7.6% of ECO member states' total trade<sup>14</sup>, out of a total ECO trade of \$688 billion in 2017.<sup>15</sup> The crucial issue of cost-benefit analysis in cross border infrastructure carries immense importance. Several constituencies are involved in cross-border infrastructure and difference in costs and benefits varies amongst them. Therefore the distribution of costs and benefits between multiple states must be fair and sufficient incentives must be provided to transit states for successful implementation.<sup>16</sup>

### **5. ECO, Russia, and China in Open Regionalism**

The ECO region is surrounded by Russia and China and therefore ECO member states need greater cooperation with Russia and China to benefit from their integration plans i.e. Russia's Eurasian Union and China's Belt and Road Initiative (BRI). The main feature of open regionalism is open membership. If any other country become a member of ECO in the future, the trade liberalizing effects of member counties will be expanded to an increasing number of countries. Even membership is not necessary for closer cooperation with these countries under open regionalism as some ECO states are members of the Eurasian Union while almost all ECO states are partners in BRI under bilateral and multilateral cooperation agreements. Five of the ECO members border the People's Republic of China while the other 5 are close partners under Belt and Road Initiative (BRI). ECO needs enhanced cooperation with the People's Republic of China for developing physical connectivity infrastructure. No other regional or extra-regional state can match the financial capacity and opportunities that China offers. All ECO member states are co-partners in the BRI. Asian Infrastructure Investment Bank (AIIB) and ECO Trade and Development Bank can also devise a joint mechanism for developing physical connectivity infrastructure in the ECO region. China Pakistan Economic Corridor (CPEC) also provides a link with the road and rail network of ECO member states. CPEC will enhance inter and intra-regional connectivity by supplementing ECO connectivity initiatives. CPEC, ECO connectivity initiatives,

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<sup>14</sup> Times of Islamabad, "ECO member states interested to invest in CPEC", 11 December, 2017, accessed on August 25, 2019 <https://timesofislamabad.com/11-Dec-2017/eco-member-states-interested-to-invest-in-cpec>.

<sup>15</sup> Ahsan Ali Mangi, "16<sup>th</sup> Meeting of TSCC", Tbilisi, 12-18 May, 2017.

<sup>16</sup> Haruhiko Kuroda, "Infrastructure and Regional Cooperation", 2007.

Central Asian Regional Economic Cooperation (CAREC), and the Trans-Caspian corridor need to be linked with each other as well as with the Eurasian Central and Northern Corridors. Eurasian Central and Northern Corridors are realized by road and rail connections from China to Europe via Central Asia and Russia. ECO has to reduce the transit time and logistics costs by developing transport and communication infrastructure as well as a market-friendly legal and regulatory framework for the transport sector.

The fate of regional states is inseparably linked. The regional states have to think about the region beyond the national borders through cross-border connectivity infrastructure to integrate production clusters in the entire region. As Brooks' in his study "Connectivity in East Asia" stated:

The competitiveness of each country's production depends on the other countries in a production network as well as on the efficiency of the trading links among them. They thus have a strong incentive to cooperate with each other, particularly on improving physical and soft infrastructure to reduce the costs of trading between them.<sup>17</sup>

ECO needs to pursue a two-pronged policy for economic integration, market-led, and policy-driven integration. Regional integration arrangements develop spontaneously as per market-led integration at times but most often regional integration is a states-led process. It is an economic as well as political question. The state-led policy-driven gradual process of regional integration addresses diversity in the geographical, political, linguistic, and economic sense. The states always have a unique capacity to address the issues and distortions in markets that markets could not solve themselves. Therefore the regional governments need to harmonize and coordinate policies for policy-driven integration. Very high-quality roads are of little use if traffic is held on borders. The software component of cross-border infrastructure, which refers to policy framework, human and institutional capacity<sup>18</sup> is equally important in regional integration.

<sup>17</sup> DH Brooks, "Connectivity in East Asia". *Asian Economic Policy Review* 11 no.2: (2016): 176-94, quoted in Hong Yu, "Infrastructure Connectivity and Regional Economics Integration in East Asia: Progress and Challenges", 2017.

<sup>18</sup> Asian Development Bank. "Cross border Infrastructure: A Tool Kit". PPIAF (Public-Private Infrastructure Advisory Faculty), ADB, 2007, <https://ppiaf.org/documents/2069/download>.



Unfortunately, the ECO region's performance is also poor in the software cross border infrastructure component. Harmonizing and coordinating transit-related policies and simplifying legal and administrative frameworks under the ECO Transit Transport Framework Agreement is essential for harnessing regional trade potential through smooth cross-border movement of goods and services. This arrangement will benefit the entire ECO region and particularly the seven landlocked members of the organization in terms of trade creation. The increased trade and investment resulting from the initiatives of ECO members would go beyond the geographical boundaries of ECO based on open regionalism.

## **6. Conclusions/Recommendations**

Due to the exploitative nature of capitalism and globalism, various regions in general and ECO in particular now realize that regionalism is the only way to address the issues of socio-economic underdevelopment, to leverage the regional comparative advantages, and to tackle the challenges posed by globalization. Regionalism or regional integration on the basis of open regionalism is a bilateral, trilateral or multilateral sector/project-specific cooperation agreement and any other state can join it. Open regionalism in contrast to close regionalism imposes no restrictions or protectionist measures against non-regional or non-member states.

ECO is working for regional economic integration to a great extent in the framework of open regionalism. The organization can expedite the process of regional integration by implementing the already bilateral and multilateral integration arrangements framed by member states. This regional integration arrangement in the fields of power, transportation, energy, trade, and investment will, directly and indirectly, enhance the ECO region's competitiveness and attraction in the global market. However, the regional states have to take into consideration the cost-benefit analysis while planning and executing the integration arrangements. It can be done by turning bilateral into trilateral and trilateral into multilateral cooperation agreements inter and intra-regionally.

ECO region has already framed bilateral, trilateral, and multilateral regional integration arrangements. Both of the components of cross-border infrastructure i.e. software (institutional capacity, harmonization, coordination of policies) and hardware (physical connectivity infrastructure, roads, railways, pipelines) make the core

of the process of inter and intra-regional integration and they need to be developed further. Regardless of the level and kind of regionalism, the two components of cross-border infrastructure i.e. software and hardware are critical for regional and inter-regional integration and trade creation. Organized and coordinated regional cooperation, expedites the economic rise of a region while its absence postpones the process. Asia, the ECO region in particular, has largely been devoid of integration arrangements due to the lack of cross-border infrastructure. It needs to be developed on a priority basis. The development of cross-border physical connectivity infrastructure in particular is almost beyond the capacity of developing states. In this regard close collaboration with the Organization's neighbors, Russia and China will be instrumental. China's initiative of Belt and Road and CPEC can be a catalyst in furthering ECO integration inter and intra-regionally based on open regionalism. All the ECO member states are co-partners in BRI while CPEC has dual roles in the regional context. Through Kashgar, CPEC has to play a role in the Belt, which is overland connectivity from China to Europe via Central Asia and Russia. Through Gwadar Sea Port, CPEC has a role in maritime connectivity from China to the Gulf and Europe. Therefore, ECO needs to cooperate with China through the BRI and link ECO, CPEC, CAREC, and Trans-Caspian corridors with each other and with Eurasian Northern and Central Corridors effecting trans-regional integration.

Regional integration is an economic as well as a political issue. Sometimes political considerations pave way for economic integration while sometimes economic considerations lead towards political integration. Afghanistan has a special role in ECO integration due to its centrality. Greater responsibility rests with ECO member states to converge political efforts for sustainable peace in the country and thus expediting the ECO inclusive integration.

Academic, cultural, and research exchanges are essential parts of overall integration complimenting inclusive integration across regions. The ECO region is popular for these kinds of exchanges in addition to economic and trade exchanges in historical context. Mutual learning or in other words transfer of skills must be encouraged, facilitated, and accelerated through openness and exchanges inter and intra-regionally.

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