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Article — Digitized Version

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Intereconomics

Suggested Citation: Kiani, M. (1975) : Obstacles to regional cooperation, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 10, pp. 306-308, <https://doi.org/10.1007/BF02929304>

This Version is available at:

<https://hdl.handle.net/10419/139275>

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Obstacles to Regional Cooperation

by Dr M. Kiani, Teheran *

On 20th and 21st of July 1964 the Heads of State of Iran, Pakistan and Turkey met in Istanbul, after their foreign ministers had already completed negotiations to provide an agreement on the "Regional Cooperation for Development" (RCD).

At the end of the conference, in a communiqué, the Heads of the three countries agreed in principle:

☐ To a free, or freer, movement of goods through different practical means, such as conclusion of trade agreements.

☐ To establish closer collaboration amongst existing Chambers of Commerce and, eventually, a joint Chamber of Commerce.

☐ To the formulation and implementation of joint proposed projects.

☐ To reduce the postal rates between the three countries to the level of internal rates.

☐ To improve the air transport services within the region and eventually to establish a strong and competitive joint international airline.

☐ To investigate the possibilities of securing close cooperation in the field of shipping, including the establishment of a joint maritime line.

☐ To undertake necessary studies for the construction and improvement of rail and road links.

☐ To sign an agreement to promote tourism within the region.

☐ To abolish visa formalities among the three countries for travel purposes.

☐ To provide technical assistance to each other in the form of experts and training facilities.

☐ It was also emphasized that all the possibilities for expanding cooperation in the cultural field of the region, should be explored.

To implement RCD-goals, the following organizations were created:

☐ A Ministerial Council, composed of the Foreign Ministers of the three countries, as the highest decision-making body of RCD.

☐ A Regional Planning Council, composed of the Heads of the plan organizations of the three countries. This Council is supported by subordinate Committees on Coordination; Trade; Industry; Petroleum and Petrochemicals; Transport and Communication; Technical Cooperation and Public Administration; Social Affairs.

☐ A permanent secretariat in Teheran with a Secretary General, who is appointed for three years from each country on a rotation basis.

Classification of Goals

The aims and goals set up through the RCD agreement, can be classified in two main categories:

(1) Those purposes and aims which were easy to realize through a simple agreement by

the three member governments, like abolishment of visa formalities; reduction of postal rates; cooperation in fields of shipping and insurance; establishment of cultural centers and research on their common cultural heritage; exchange of students and university professors; grant of scholarships and establishment of a joint Chamber of Commerce.

Soon after the RCD agreement, there was successful progress in these fields and meanwhile cooperation has been extended. However, it was possible to be successful only in these fields, not in others! The same was true of other cases of regional cooperation such as the Maghreb Permanent Consultative Committee (CPCM), which was created 1964 by Algeria, Morocco and Tunisia. The CPCM also registered some success in the early period of its existence in the fields of postal and telecommunications and transport, but not in sectors such as expansion of trade, or technical cooperation, for which purposes the CPCM was created. The reasons for this failure by the CPCM are the same as those of RCD, which will be discussed below.

(2) Those aims and goals, such as expansion of trade, establishment of joint projects, technical cooperation, and assistance, for which the Regional Cooperation for Development was in principle brought into being. Since the inception of RCD, it was clear that

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Regional Cooperation would never attain its goals due to fundamental, structural, socio-economic obstacles and barriers, which exist in each of the three member countries.

Disappointing Results

Now after more than eleven years of striving to cooperate, to promote trade and tourism, the results are disappointing. A glance at the table shows that Iran's total trade with the other two RCD countries has hardly reached one percent. Furthermore, since the RCD agreement has come into operation there has hardly been any improvement in the trade between Iran and the other two member countries. As the table shows, the trade fluctuated wildly and there is no sign of a steady, solid trend through the years.

The data of the table are calculated on the basis of the total imports of Iran up to 1973. Since 1974, however the volume of Iranian imports has exceeded \$ 10 bn, which means that the percentages get smaller and that the picture therefore becomes more aggravated.

The percentage of trade between Pakistan and Turkey and vice versa is the same as shown in the case of Iran's trade with the two other countries, so that the volume of trade between the RCD countries has been about one percent in the last ten years of the total trade of these countries with the rest of the world.

The results in the fields of industrial cooperation, i. e. the establishment of joint purpose plants were also modest. From the fifty joint purpose enterprises which have been approved, only nine (the Aluminium Plant in Iran, the Bank Note Plant, the Ball Bearings and Ultramarine Blue Project in Pakistan, the Tungsten Carbide Project, the Borax and Boric Acid Project, the Centrifugal and Special Filters Project, the High Tension Isolators Project and the Tetracycline Project in Turkey) are in operation. Though there is participation in joint enterprises, or a guarantee for supply purchases for some years by the member countries, still these plants could have been established equally well in each country without the necessity of a regional agreement! Not only is the size of the plants limited and capacity too low to meet the demand of all the countries in the future, but also the projects stand alone and there are no forward and backward linkages.

In the field of transport and tourism, too, very little of value has been achieved. The Turkish-Iranian railways link could neither help the promotion of tourism, nor facilitate the passage of cargo between the two countries.

Obstacles to Cooperation

The failure of RCD in the main fields of industrial cooperation, expansion of trade, promotion of

tourism, etc., for which an agreement was signed between the three countries, is linked to some fundamental obstacles of an institutional and administrative nature, which existed since the inception of RCD and cannot be removed with any great ease.

□ The contract for cooperation between the three countries was not "natural". Despite the emphasis on the strong historical, religious and fraternal ties between these countries, the RCD agreement was based on a military pact, namely the Central Treaty Organization. There is no declaration to the effect that the RCD should serve to strengthen the military pact, but such a suspicion has existed ever since the agreement was brought to being. Thus any effort to improve the intraregional relationship should be judged from this perspective.

□ The three RCD countries produce almost the same agricultural products for export, like cotton, cotton yarn, dried fruit, nuts, hides and skins, leather, etc. Turkey and Iran have rich reserves of copper, both export cotton, cotton yarn and cotton textiles and import high quality textiles from European countries. The foreign trade figures of the three countries show that they have imported wheat and other staple foods in last years from the other countries of the world. In particular over the last two years Iran has been short of cement, but only small amount of imports from the two RCD

Iran's Imports from, and Exports to, Pakistan and Turkey in p.c. of its total Imports and Exports, 1962/63 – 1972/73

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
Pakistan											
Imports	0.59	0.24	0.27	0.26	0.28	0.34	0.33	0.41	0.36	0.29	0.17
Exports	1.3	1.08	1.05	0.48	1.0	0.57	0.44	0.57	0.6	0.21	0.18
Turkey											
Imports	0.12	— a	1.39	0.06	0.01	0.01	0.02	0.24	0.23	0.26	0.58 b
Exports	0.04	— a	0.21	0.28	0.06	0.02	0.51	— a	— a	0.03	0.01 b

Source: Ministry of Economy, Teheran, unpublished data. a Negligible percentage. b Nine months.

member countries was possible, due to transport problems!

The structure of imports of the three RCD countries is nearly the same. Because of the industrialization drive in the three countries, all need a variety of capital goods; goods that they cannot supply to each other. Apart from these, they import consumer goods and intermediates for the light and heavy industries they have established in the recent years.

□ If we review the trade policy of the RCD countries in the last years we can observe that it has been diametrical to the aims which were included in the RCD agreement: Turkey as country associated with the EC looks towards Europe and tries to expand its foreign trade with EC countries. Pakistan, on the other side, is most interested in increasing the supply of food by its trade policy, expanding its basic industries, and keeping those markets, such as the East African, which it has sold to for many years. Iran, with an import-oriented economy, whose people are used to European goods, has, on the one hand, old traditional trade ties with European countries and, on the other hand, is obliged to offer its markets to a number of countries for the sake of political relationships.

□ Though there are small differences in the stages of development, there is a common characteristic in the economic policy of the three RCD countries, namely the drive to industrialization through the protection of domestic industries, and through the imposition of high tariffs on foreign goods. This is also one of the reasons why none of the RCD countries has lowered its tariffs for the goods of the other member countries. In this respect every country is pursuing its own national interest and adopts those policies, which

serve its own economy best. It is this kind of thinking which has prevented the RCD countries from establishing an international airline after ten years of cooperation.

Prospects

In the next ten years, if the RCD countries can utilize every opportunity to expand the regional trade, it might be possible to raise the present volume of intraregional trade from less than 2 p.c. to 5–8 p.c. To reach this level, new measures such as the creation of market research groups at the RCD center in Teheran and in the two other member countries will be necessary. At the present time many goods are produced in the RCD countries such as electrical and household equipments and so on, that are unknown to the consumers of the other RCD countries. The marketing groups, which should be composed of members of the Ministry of Trade of each country, and collaborate with the Chamber of Commerce of every country and the RCD Chamber of Commerce, should identify such goods and introduce them to consumers in the other countries.

In the next years, after RCD cooperation has been tightened up, the RCD governments should be ready to revise some of their protectionist policies; when a good is produced in one country, the other two should prohibit its importation from other parts of the world. Nevertheless, one should be aware that the possibilities of promoting intraregional trade in the next ten years are limited.

The first condition of expanding intraregional trade is the construction of transport facilities. In the last eleven years RCD has done little in this field. It is foreseen that the Iranian railway would link up to the Pakistani railway at Mirdjaweh by

1980. Now it is clear that the linkage of the two railways cannot help much more than Turkish-Iranian railroads.

To establish transport facilities to promote trade and tourism, the region needs a network of highways, railways and other facilities which are not only rational, but can cover the transports network of the three countries.

Though, since the inception of RCD agreement, a regional planning council composed of the Heads of the plan organizations of the three countries exists, nothing has been done to coordinate the different plans in regard to RCD purposes. Every government plans for its own country without respecting the plans of the other member countries.

To improve industrial cooperation and utilize more effectively the joint purpose projects, the three plan organizations should coordinate their planning. The governments of the three countries should have an intraregional plan which includes the Five Year Plans of each country. So every intraregional project can be set up in the context of national planning.

A number of other projects can be taken as supplementary measures to expand trade. These might include the establishment of an intraregional bank to finance joint industrial projects and trade in the region or to raise the present bilateral credit ceiling from \$ 2 mn to much more, depending on the trade volume in the future.

But one should be aware, that such complementary achievements can only help to facilitate the expansion of intraregional trade, when the other measures mentioned have been undertaken. They cannot promote the trade alone, as some observers would believe.