



Study of the Member States of the Economic Cooperation Organization in International Law Based on Trade

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Abstract: Economic issues are increasingly integral to the functioning of contemporary governments. This study examines the framework of international law governing trade within the member states of the Economic Cooperation Organization (ECO). The ECO aims to enhance economic development and promote sustainable growth among its members; however, as the majority of its members are developing countries, significant economic and legal inconsistencies persist. Such discrepancies hinder the organization from achieving its core objectives, potentially limiting its overall effectiveness. This study first analyzes trade indices among ECO member states, then identifies the principal determinants of trade, and finally investigates the impact of international investment treaties on the application of international law. The results indicate that, during the period 2003–2015, ECO member states exhibited a relatively low average intra-industry trade index, reflecting insufficient industrial and legal infrastructure. Intra-industry trade levels are considerably lower than those observed in industrialized nations, particularly the European Union, where the average intra-industry trade index reaches approximately 69 percent. Moreover, political dynamics and international relations have further contributed to the organization’s limited efficacy. This article employs a descriptive-analytical methodology, drawing upon reliable documents and empirical data.

Keywords: *International Law, Trade, Volitional Accreditation, Legal Accreditation, ECO Member States.*

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Introduction

Since the conclusion of World War II, one prominent objective of international law has been the promotion of cooperation within regional frameworks. In this context, the Economic Cooperation Organization (ECO) emerged as a platform dedicated to economic development and regional collaboration. Following the dissolution of the former Soviet Union, the ECO expanded its membership, thereby attaining a distinct geopolitical significance (Moradi & Azami, 2021).

This study seeks to evaluate trade patterns within ECO member states, identify key determinants of trade, and assess the influence of international investment treaties on customary international law. A particular focus is placed on intra-industry and inter-industry trade. Intra-industry trade (IIT) represents a contemporary empirical phenomenon wherein a country simultaneously exports and imports goods or services within the same industry. This concept contrasts with inter-industry trade, in which a country specializes in the production of specific goods or services in which it possesses a comparative advantage, exporting them in exchange for goods or services in which it lacks specialization.

The theoretical foundation of intra-industry trade can be framed within the Heckscher-Ohlin-Samuelson (H-O-S) model. Several scholars, including Lipsey (1976) and Pomfret (1979), have

explored the tensions between the H-O-S framework and IIT. Others, such as Balsa (1987), Grobel & Lloyd (1975), and Krugman (1981), have argued that relaxing one of the core assumptions of the H-O-S model—specifically, the existence of a linear homogeneous production function exhibiting constant returns to scale—allows for an explanation of IIT within this framework. Grobel demonstrated that deviations from constant returns to scale largely account for the divergence between the classical H-O-S model and real-world trade patterns.

Using a cross-sectional approach and analyzing average three-digit SITC data for the period 2003–2015, this study first examines the intra-industry trade index among ECO member countries in comparison to four leading European industrial nations. Subsequently, it identifies the principal determinants driving intra-industry trade within the ECO region (Falhati & Soleimani, 2009).

Economic Cooperation Organization (ECO)

The Economic Cooperation Organization (ECO) is a regional economic organization initially established in 1964 by Iran, Pakistan, and Turkey. Originally operating under the name “RCD” (Regional Cooperation for Development), the organization’s

activities in Iran were interrupted following the Iranian Revolution in 1978. In 1985, the organization resumed its operations under the current name, ECO.

Following the dissolution of the Soviet Union in February 1991, Azerbaijan, Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan, and Tajikistan joined the organization. Subsequently, Afghanistan’s accession increased the membership to ten countries. The ECO occupies a strategically significant position due to its borders and proximity to the Persian Gulf, as well as major powers such as Russia, China, and India. The organization encompasses a population of approximately 330 million people and covers an area of 8,620,697 square kilometers, endowed with oil, gas, and industrial resources (Azami & Moradi, 20021).

The ECO’s statute articulates several objectives, including promoting sustainable economic development among member states and gradually removing regional trade barriers. Additional goals include implementing joint human resource development programs and accelerating the development of transportation and communication networks within member countries. The official language of the ECO is English, and its headquarters are located in Tehran, Iran. To commemorate the accession of Afghanistan and the countries of the Caucasus and Central Asia—Turkmenistan, Kyrgyzstan, Uzbekistan, Kazakhstan, Tajikistan, and Azerbaijan—the organization designated December 7, 1992, as ECO Day, marking the expansion from three to ten member states.

Intra-Industry Trade

Intra-industry trade (IIT) is a contemporary concept in international trade, representing a significant paradigm in the analysis of trade patterns. Within the context of the ECO, this study considers IIT as a key component of regional trade. IIT occurs when a country simultaneously exports and imports goods or services produced within the same industry. Trade flows in complementary goods emerge from comparative advantages derived from differences in factor endowments under conditions of full competition.

Empirical analyses have shown that in industrialized nations, intensive utilization of specific factors often results in reciprocal exchanges within the same category of goods. Although IIT involves trade in ostensibly identical goods, variations in consumer preferences across countries lead to substitution among similar products (Grobel & Lloyd, 1975).

Subsequent research has indicated that highly developed economies typically exhibit a high degree of intra-industry trade due to their specialized trade structures. Conversely, developing countries demonstrate lower levels of IIT, while middle-income countries display intermediate levels (Falahathi & Soleimani, 2009). Expansions in exports are closely associated with increases in intra-industry trade; for example, the growth of exports in East Iran ranks second among ECO member states in terms of the intra-industry trade index for industrial production, following Turkey. Nonetheless, Iran’s IIT index remains low across all commodity 2009).

Asian and newly industrialized countries has correspondingly elevated IIT levels. High levels of intra-industry trade, therefore, indicate a dual capacity for adaptability and competitiveness in the international trading environment.

It is important to recognize that IIT is a consequence of specialization rather than its cause. The determinants of a country’s international trade capacity include monetary and financial policies, factor markets, capital availability, trade regulations, and restrictions such as tariffs and quotas. Specialization, particularly within the same industry, typically incurs lower costs than investing in entirely new sectors and may reduce social costs associated with labor demand. Furthermore, specialization fosters competition and promotes innovation, technological advancement, and economic growth.

Nevertheless, caution is warranted when interpreting intra-industry trade as an indicator of trade readiness. While a country with high IIT demonstrates flexibility and preparedness for trade liberalization, trade liberalization itself—such as within the European Union framework—can stimulate investment and improve economic efficiency.

Intra-Industry Trade in the Member States of the Economic Cooperation Organization (ECO)

As previously discussed, the Economic Cooperation Organization (ECO) is a regional economic organization. Although intra-industry trade (IIT) is primarily a concept within international trade, this study focuses specifically on IIT among ECO member states. Table 1 presents the intra-industry trade index for selected ECO member states in comparison with five industrialized European countries during the period 2003–2015.

Across all commodity groups, the intra-industry trade index values for ECO member states are notably low. Among the member states, the Republic of Azerbaijan exhibits the lowest IIT index, at 12 percent, whereas Turkey demonstrates the highest level within the ECO region, at 38 percent. In contrast, the sample industrialized European countries display substantially higher levels of IIT, with France registering the highest index at 74 percent and Italy the lowest at 59 percent.

The average IIT index for the sampled ECO countries is only 22 percent, reflecting consistently low intra-industry trade across all commodity categories. However, a significant increase in IIT is observed within manufactured goods. For instance, Kazakhstan records the lowest IIT in manufactured goods, with a value of 13 percent, indicating a decline in intra-industry trade relative to the overall commodity index and highlighting the country’s limited industrial production capacity.

groups, representing the second-lowest level among the member states (Falahathi & Soleimani,

Table 1. Intra-industry trade index in manufactured goods and all commodity groups

Country	Manufactures	All Commodity
	Manufactures	All
	2003-15	Commodity
	2003-15	2003-15
Azerbaijan	0.1538	0.1278
Iran (Islamic Republic of)	0.2813	0.1384
Kazakhstan	0.1372	0.1671

Kyrgyzstan	0.2180	0.2169
Pakistan	0.1264	0.1428
Turkey	0.4227	0.3872
Simple Average	0.2232	0.1967
Sample industrial Countries		
France	0.8073	0.7490
Germany	0.7623	0.7270
Italy	0.6338	0.5927
United Kingdom	0.7239	0.7085
Simple Average	0.7318	0.6943

International Law and Investment Treaties

In the contemporary global system, international law occupies a central and indispensable position. Broadly defined, international law constitutes a branch of law governing the relations among states, international organizations, and individuals, provided that at least one element of these relations possesses a foreign or international character. Although states, international organizations, and individuals are recognized as subjects of international law, individuals acquire legal standing before the International Court of Justice only through the principle of political representation afforded by their respective states.

The sources of international law are generally classified into primary sources—such as international treaties, customary international law, and general principles of law—and secondary sources, including judicial decisions, doctrinal writings, and the principles of justice and equity. Importantly, the primary sources of international law are considered to possess equal validity. Customary international law, defined as the consistent conduct of states accompanied by a belief in the obligatory nature of that conduct, is accorded equal status with treaties. When a conflict arises between customary law and treaty obligations, the later rule prevails, whereas earlier provisions remain in effect to the extent they are not modified. Treaties, on the other hand, impose obligations explicitly and voluntarily accepted by states. Evidence of customary international law is derived not only from state practice but also from international judicial decisions and scholarly commentary, underscoring the intersection of law with international relations and the principle of voluntary or legal credibility.

Credibility in international law refers to the reputation a state establishes through its adherence to legal norms. A state that consistently observes international obligations is recognized as a reliable partner, whereas a state that violates such obligations undermines its credibility, influencing future interactions with other states (Dadmehr, 2014: 123–145). This accumulated perception of a state's past behavior functions as a predictive tool, assessing the likelihood of compliance in future engagements. High credibility facilitates participation in international contracts, enhances bargaining power, and attracts cooperation from other states. Essentially, credibility operates as the latent force underpinning international agreements, serving as a critical determinant of trust in international relations (Mercer, 1997: 100–113).

Within this framework, the credibility of a state also underpins its engagement in international investment treaties. These treaties, particularly bilateral investment treaties, emerged in the late 1950s to regulate the rapidly expanding sphere of international

Investment. They addressed gaps in classical international law, which rarely encompassed investment matters. Since the mid-1990s, the proliferation of such treaties has been substantial, with over 5,500 treaties recorded by 2006, exceeding the volume of treaties in other legal domains, and with approximately 290 reported investment arbitration cases by 2007 (Kong Yan, 2009: 291–263). The continuous increase in arbitration proceedings underscores the dynamism of international investment treaties, which in turn influences the development and application of customary international law.

Scholars such as Ian Brownlie argue that for customary rules, coherence and generality of state practice are sufficient, without requiring a defined temporal span, as the passage of time inherently provides evidence of general practice. Li Hao Pei similarly contends that the relevant time frame depends on the density of specific international interactions. Consequently, while customary law generally incorporates both consistent practice and a normative or moral component, this element is not necessarily binding.

According to the United Nations International Law Commission and numerous international legal scholars, rules of customary international law may derive authority from three principal sources: (1) diplomatic relations among states, including treaties, declarations, and other instruments; (2) decisions and opinions of international institutions; and (3) interstate actions, such as laws, judicial rulings, and administrative measures. Nevertheless, debates persist regarding the relative validity of rules developed through these different methods. These debates often center on the role of treaties in shaping customary law. While treaties can influence customary law, their impact should not be overstated. Unlike domestic legal systems, where state practice is guided by domestic law and expectations, international treaty-making is frequently influenced by power politics, diplomatic pressures, and inequalities among negotiating parties.

Multilateral treaties, involving numerous states, can mitigate power disparities to some extent, and the International Court of Justice recognizes the potential of treaty practice to contribute to customary international law. The Vienna Convention on the Law of Treaties further underscores this relationship, stating in Article 38 that a treaty rule recognized as customary law and gradually accepted by states is binding on third parties. Compared to other interstate instruments, treaty-making—particularly when ratified by national legislatures—is a formal legal act, conferring enforceable rights and obligations that contribute to the establishment of legal norms (ibid.: 263–291).

Challenges of International Law and the Economic Cooperation Organization (ECO)

The Economic Cooperation Organization has not progressed as envisioned by its member states, and the objectives initially set forth have largely remained unfulfilled. Scholars and legal experts consistently highlight those legal, political, and diplomatic factors have significantly influenced the organization's development. Within both regional and international arenas, numerous economic organizations operate alongside ECO; however, ECO has historically lacked substantial cooperation or interaction with comparable organizations. This absence of strategic engagement represents a critical obstacle, limiting ECO's influence and effectiveness on the global stage.

In the broader international context, trade and commerce are governed by standardized legal frameworks, numerous conventions, and established customs. Additionally, countries and international organizations frequently propose guiding regulations to harmonize these practices. A persistent challenge arises from the differing interpretations and definitions of fundamental legal and economic concepts by member states, which are shaped by their respective domestic laws and regulations. Consequently, ECO's primary goal—promoting sustainable development among its member states—faces substantial barriers.

Regional convergence among member states is essential for ECO's effectiveness, implying the integration of diverse national policies and regulations into a cohesive regional framework. Yet, political divergences among members have hindered such harmonization, emphasizing the necessity for legal convergence to achieve organizational objectives. Beyond economic improvement and sustainable development, achieving regional legal and policy convergence would strengthen ECO's position as a significant regional bloc (Qavam, 2005).

From an international law perspective, norms and rules require formal recognition through treaties, statutes, or resolutions, even though many derive from customary international law. Thus, treaties and customary practices are interdependent, with the existence of one reinforcing the legitimacy and applicability of the other (Kamali et al., 2016).

While each state possesses sovereignty and independent decision-making within the international arena, external influences—particularly from developed regions such as Europe and the United States—can constrain the progress of developing countries. Such influence often limits regional integration and perpetuates dependency on trans-regional powers (Shahabi & Sheikh al-Islami, 2007). In extreme cases, as exemplified by Afghanistan, armed conflict can devastate economic infrastructure and trade systems, generating regional instability and insecurity that further impede the objectives of organizations like ECO.

Conclusion

The results of this study indicate that the member states of the Economic Cooperation Organization (ECO) exhibit a very low average intra-industry trade index across all commodity groups for the period 2003–2015, reflecting inadequate industrial and legal infrastructure and limited development. This level of intra-industry trade is markedly lower than that observed in industrialized countries, particularly within the European Union, where the

average intra-industry trade index reaches approximately 69 percent—roughly 3.5 times higher than that of ECO member states.

Econometric analyses of the determinants of intra-industry trade further reveal that trade levels in ECO countries remain substantially below those of developed nations. These findings suggest that targeted measures—such as implementing effective economic regulations, strengthening international investment treaties and legal frameworks, promoting trade liberalization, and diversifying the industrial base—could significantly enhance intra-industry trade levels within the ECO region.

By achieving greater specialization in existing industries through increased intra-industry trade, ECO member states could realize substantial economic benefits, given that cost adjustments over a defined period would be minimal. The study also underscores that the low intra-industry trade index among ECO countries reflects a broader lack of industrial specialization in the production of goods.

Moreover, international law considerations have proven highly influential in shaping these outcomes. Economic shortcomings within the ECO region are closely linked to legal constraints and compounded by political relations and differences among member states. To address these challenges effectively, the establishment of a comprehensive treaty or memorandum of understanding among member states appears necessary to resolve political disputes, harmonize trade policies, and facilitate the organization's primary objective of fostering economic development and cooperation.

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