



Fifth Technical Workshop on Afghanistan's  
Accession to the WTO  
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# Afghanistan: Strengthening Regional Integration and Linkages with Central Asia

## *Preliminary Findings for Discussion*

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# Agenda

1. Background: ESCAP project on regional integration
2. Afghanistan: recent economic and trade performance
3. State of economic linkages with Central Asia
4. Investigating barriers to regional economic integration
5. Discussion: identifying barriers and policy priorities





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# Regional economic integration can deliver important benefits

In general terms, the benefits from pursuing regional integration are numerous and include:

- Reaping economies of scale or other efficiencies to increase local supply capacity and improve access to markets
- Integrated or harmonized treatment of trans-boundary issues such as trade, regulatory frameworks and policies, and regional infrastructure
- Management of shared natural resources.





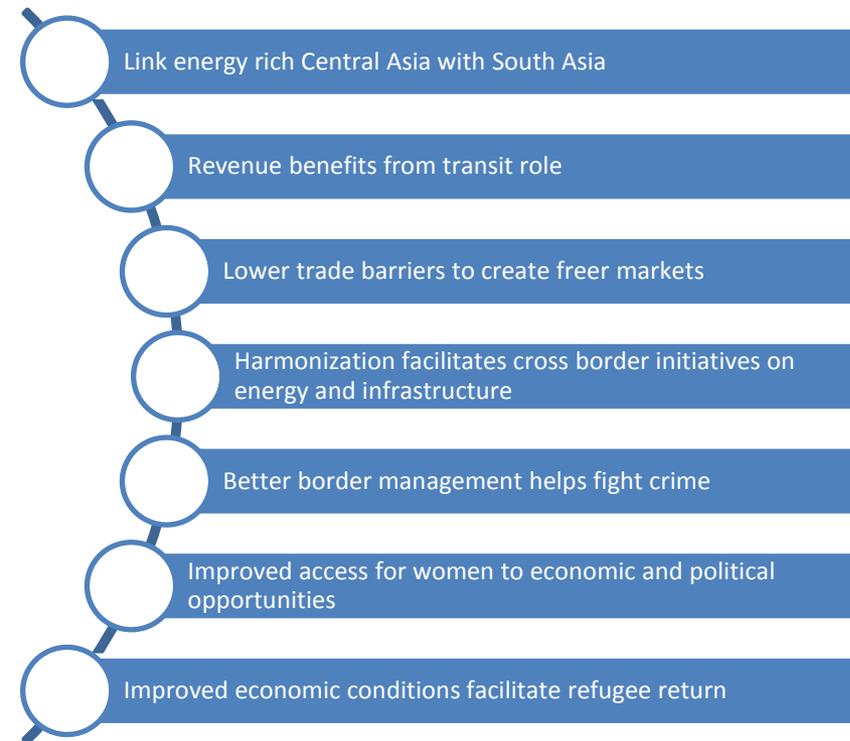
# Regional integration has an important role in Afghanistan's National Development Strategy

## Vision of Regional Integration

*The central goal of the Regional Cooperation issue is to contribute to regional stability and prosperity, and to enhance the conditions for Afghanistan to resume its central role as a land bridge between Central Asia and South Asia, and the Middle East and the Far East, as the best way of benefiting from increased trade and export opportunities.*

- Afghanistan  
National Development Strategy

## Strategic Outcomes





# ESCAP project is considering how to strengthen Afghanistan's economic linkages with Central Asia

## Overview

- **Objective:** To strengthen the level of current economic ties between Afghanistan and neighbouring countries in Central Asia
- **Lead Offices:** ESCAP Trade and Investment Division; ESCAP Subregional Office for North and Central Asia (SONCA)
- **Timeframe:** Results to be shared alongside SPECA Economic Forum, 10-11 March 2015

## Principal Tasks

- **Evaluate:** current status of trade and economic links:
  - Trade in Goods and Services
  - FDI
  - Labour Mobility
  - Cross-border collaboration
- **Identify** key barriers
  - Tariff and Non-tariff barriers
  - Infrastructure constraints
  - Business sector capacity
- **Recommend:** policy priorities





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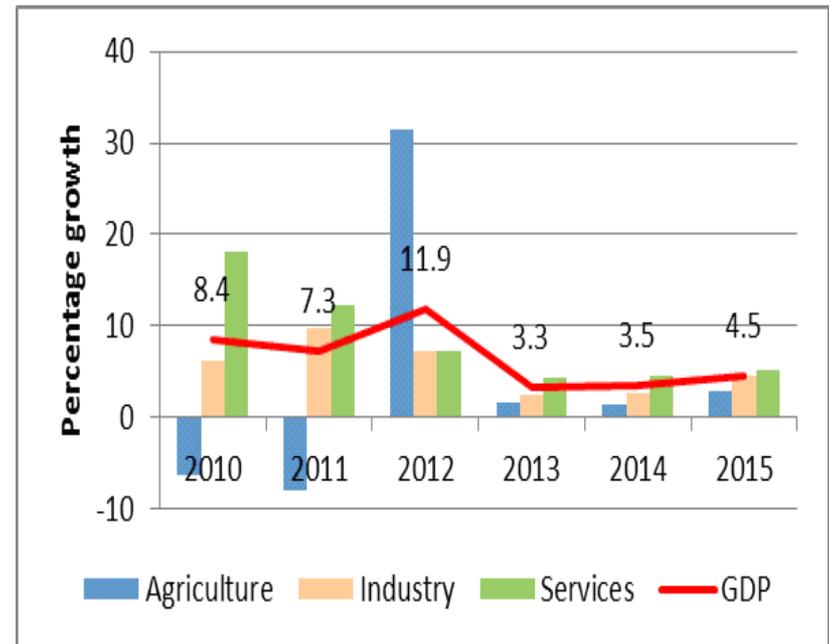




# Recent growth has been weakening and is strongly influenced by agricultural performance

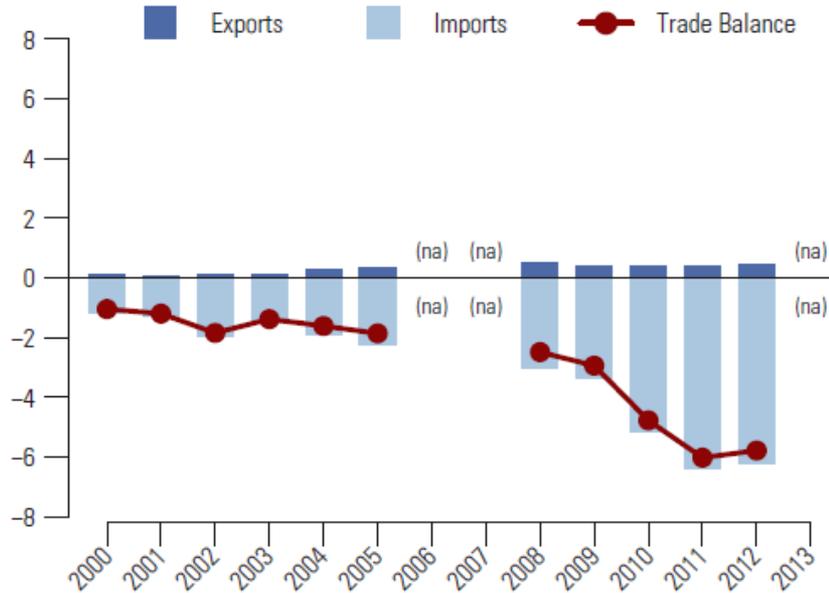
- GDP per capita increased by 342% from \$198 to \$678 in 2003-2013
- Economic growth in 2013 was estimated at 3.3% having fallen from 11.9% in 2012
- For 2014 and 2015 GDP growth is expected by ADB to be 3.5% and 4.5%, respectively.
- Overall growth strongly correlated to agricultural performance: Output volatile and may be close to current capacity
- Inflation rate: 7.3%, largely affected by persistent growth of food prices

Trends in GDP growth by sector

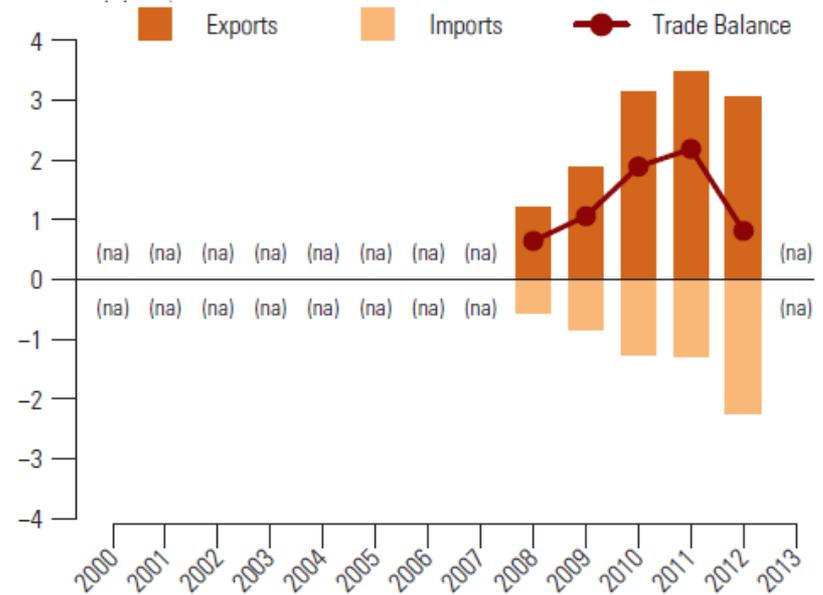


# A large deficit in merchandise trade contributes to current account deficits

## Merchandise Trade (\$bn)



## Services Trade (\$bn)





## Afghani exports are heavily concentrated by products and partners (2012)

### Top 5 partners (share of total)

Country	Value (\$)	Share
Pakistan	219327747	47.03%
India	103463030	22.18%
Not specified	24601991	5.28%
Iran	20188642	4.33%
Finland	12734740	2.73%

### Top 5 exports (share of total)

HS Code	Product	Value (\$)	Share
5201	Raw Cotton	67725753	14.52%
2701	Coal Briquettes	50441462	10.82%
806	Grapes	45317420	9.72%
7204	Scrap Iron	42810146	9.18%
1301	Insect Resins	33573659	7.20%

Source: UN Comtrade





# Imports less concentrated than exports; but South Asia still key partner(2012)

## Top 5 partners (share of total)

Country	Value (\$)	Share
Pakistan	2238481624	26.04%
Not identified	1297312781	15.09%
Russia	697831556	8.12%
China	593316653	6.90%
United States	577070246	6.71%

## Top 5 imports (share of total)

HS Code	Product	Value (\$)	Share
2703	Peat	1335093275	15.53%
2710	Refined Petroleum	1190325582	13.85%
1101	Wheat Flours	399496199	4.65%
2523	Cement	320136010	3.72%
1516	Other Vegetable Oils	219596617	2.56%

Source: UN Comtrade





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# Current economic relationship with Central Asia is limited but has considerable potential

## Afghanistan and Central Asia: Key Features

TRADE	FDI	LABOUR MOBILITY	INFRASTRUCTURE	INSTITUTIONAL
<ul style="list-style-type: none"><li>• Current trade relationship limited especially as export market</li><li>• Data is patchy; may not capture informal trade</li><li>• Common challenges from landlockedness and lack of diversification</li></ul>	<ul style="list-style-type: none"><li>• Intra-regional FDI flows largely insignificant</li></ul>	<ul style="list-style-type: none"><li>• Many Afghan's working outside country</li><li>• Little data on presence in Central Asia</li></ul>	<ul style="list-style-type: none"><li>• Cross border energy trade important</li><li>• Some progress in transport links through CAREC corridors</li></ul>	<ul style="list-style-type: none"><li>• Numerous mechanisms for regional co-operation</li><li>• No single trade agreement for region</li></ul>





## In general Central Asian markets are relatively small

Countries	Population size (1 000)	GDP in current prices (million \$)	GDP per capita (\$ 2005 PPP)	Urban population (% total)	Life expectancy at birth (years)	Adult literacy rate (% of population aged 15 and above)	Under-5 mortality rate (Deaths per 1 000 live births)
Afghanistan	30 552	20 364	1 367	24	61		98
Kazakhstan	16 441	202 656	12 360	53	67	99.7	19
Kyrgyzstan	5 548	6 475	2 118	36	68	99.2	27
Tajikistan	8 208	7 633	1 920	27	67	99.7	58
Turkmenistan	5 240	33 466	9 121	49	66	99.6	53
Uzbekistan	28 934	51 414	3 229	36	68	99.4	40



# Afghan trade with Central Asia is currently limited; though reliable data is hard to find

## Exports to Central Asia by product (2011)

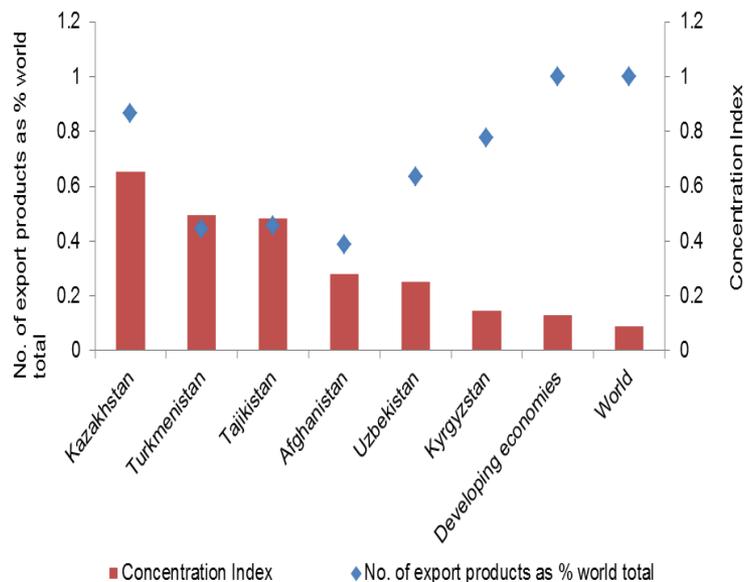
	KAZAKHSTAN			KYRGYZSTAN			TAJIKISTAN			TURKMENISTAN			UZBEKISTAN		
	PRODUCT	Value	share	PRODUCT	Value	share	PRODUCT	Value	share	no data			no data		
1	Potatoes	\$2,851,489	80%	Potatoes	\$36,139	57%	Curbs tones	\$3,915,048	99.9%						
2	Grapes	\$585,523	16%	Other Hides and Skins	\$11,233	18%	Marble, Travertine and Alabaster	\$2,500	0.1%						
3	Citrus	\$72,846	2%	Aircraft Parts	\$8,847	14%									
4	Onions	\$46,224	1%	Citrus	\$6,416	10%									
5	Root Vegetables	\$7,064	0%	Electric Batteries	\$1,172	2%									
Top 5 share			100%			100%			100%						

## Imports from Central Asia by product (2011)

	KAZAKHSTAN			KYRGYZSTAN			TAJIKISTAN			TURKMENISTAN			UZBEKISTAN		
	PRODUCT	Value	share	PRODUCT	Value	share	PRODUCT	Value	share	PRODUCT	Value	share	PRODUCT	Value	share
1	Wheat Flours	\$104,498,641	29.9%	Refined Petroleum	\$21,013,294	89.3%	Refined Petroleum	\$55,225,962	78.4%	Refined Petroleum	\$278,019,884	85.3%	Refined Petroleum	\$541,368,429	92.8%
2	Refined Petroleum	\$81,945,118	23.4%	Raw Iron Bars	\$530,580	2.3%	Leather Footwear	\$3,262,660	4.6%	Petroleum Gas	\$46,127,886	14.2%	Dried Legumes	\$15,601,569	2.7%
3	Petroleum Gas	\$60,843,828	17.4%	Vehicle Parts	\$276,462	1.2%	Iron Blocks	\$2,743,929	3.9%	Chocolate	\$1,122,208	0.3%	Petroleum Gas	\$12,197,290	2.1%
4	Wheat	\$17,000,996	4.9%	Planes, Helicopters, and/or Spacecraft	\$273,366	1.2%	Non-Knit Women's Shirts	\$1,815,667	2.6%	Stone Processing Machines	\$288,038	0.1%	Wheat Flours	\$5,545,124	1.0%
5	Linseed	\$12,576,805	3.6%	Soap	\$260,761	1.1%	Chocolate	\$1,521,050	2.2%	Wheat Flours	\$148,647	0.1%	Chocolate	\$3,926,627	0.7%
Top 5 share			79.1%			95.0%			91.6%			99.9%			99.2%

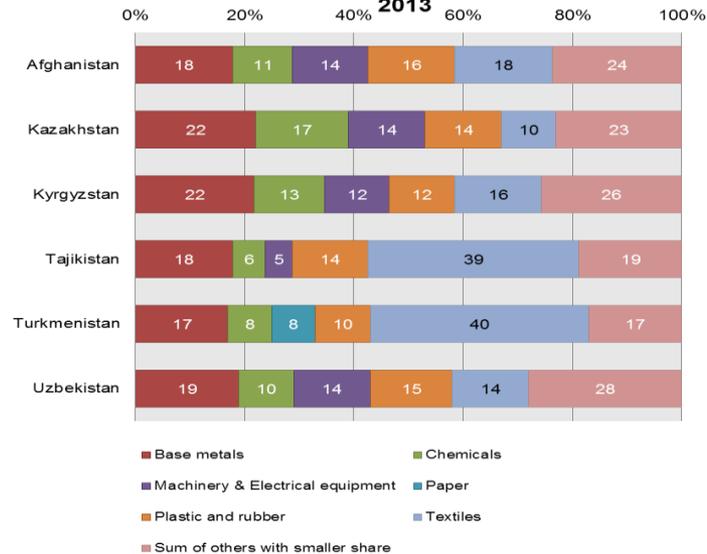
# Afghanistan and Central Asia face common challenges from low levels of diversification

## Diversification Indices



## Diversification potential

Top five industries with highest percentages of potential new products, Asian landlocked developing countries, 2013

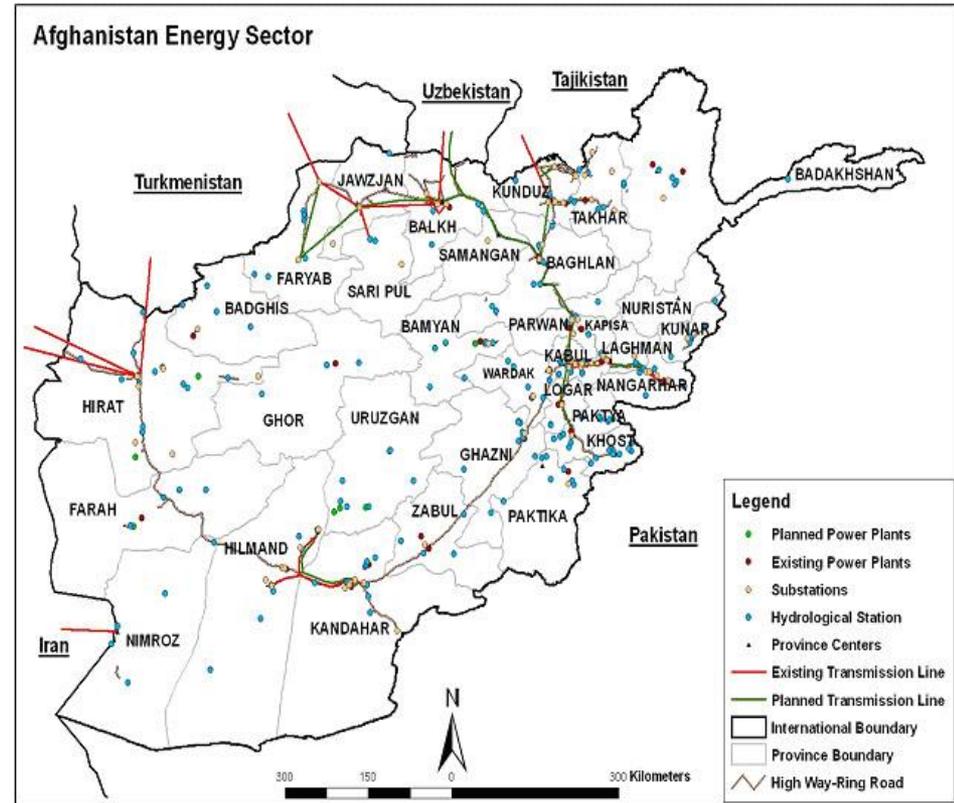


Source: ESCAP (2014)



# Central Asia is a critical supplier of energy to Afghanistan

- In 2011 Afghanistan produced 0.8 GWh and consumed 3 GWh of electricity
- 70% of the population of Afghanistan have no access to electricity
- Net electricity demand in Afghanistan is set to increase to 7.5 GWh by 2020
- Central Asia (excl. Turkmenistan) had 25,338 GWh of annual surplus electricity available for trade in 2010
- Afghanistan can be self-sufficient, but imported electricity is much cheaper
- Price range for electricity in Central Asia is 1.9-3.8 US cents/kWh; in Afghanistan electricity is largely oil- and diesel-generated (35-40 US cents/kWh)
- Joint energetics projects following RECCA-V: TAPI Pipeline; CASAREM (transmission lines from Kyrgyzstan and Tajikistan) 1.3 GWh supply; Afghanistan Regional Electric Grid





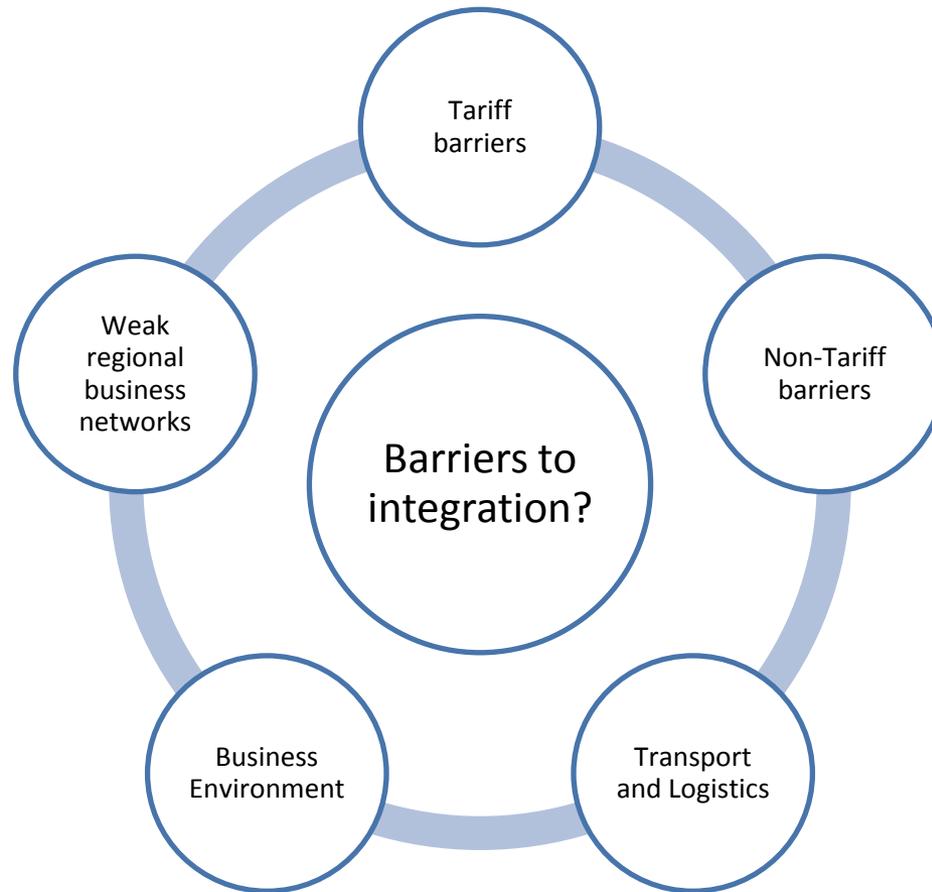
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# ESCAP is seeking to identify critical barriers to deeper regional integration

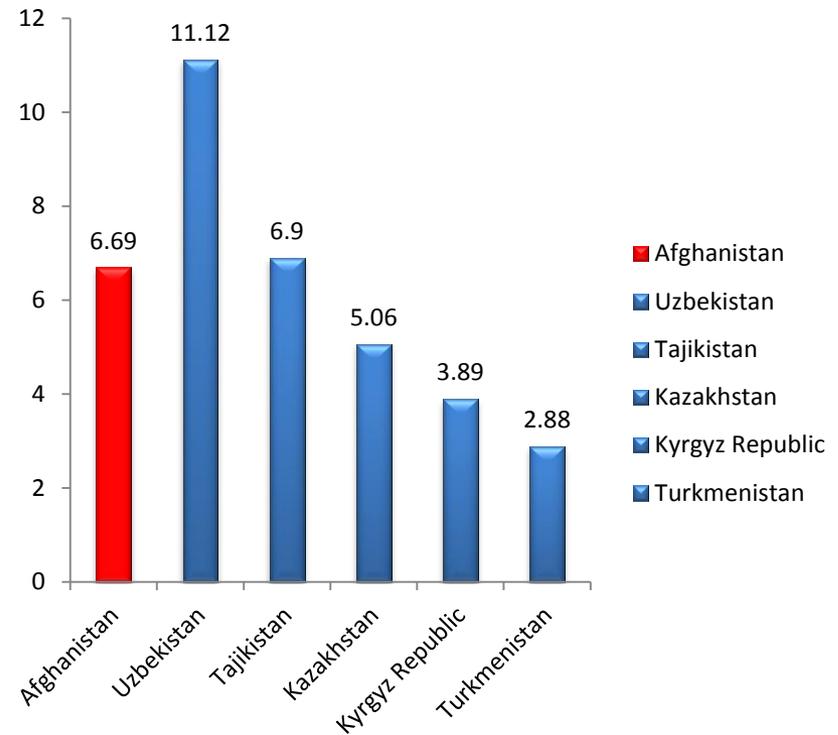




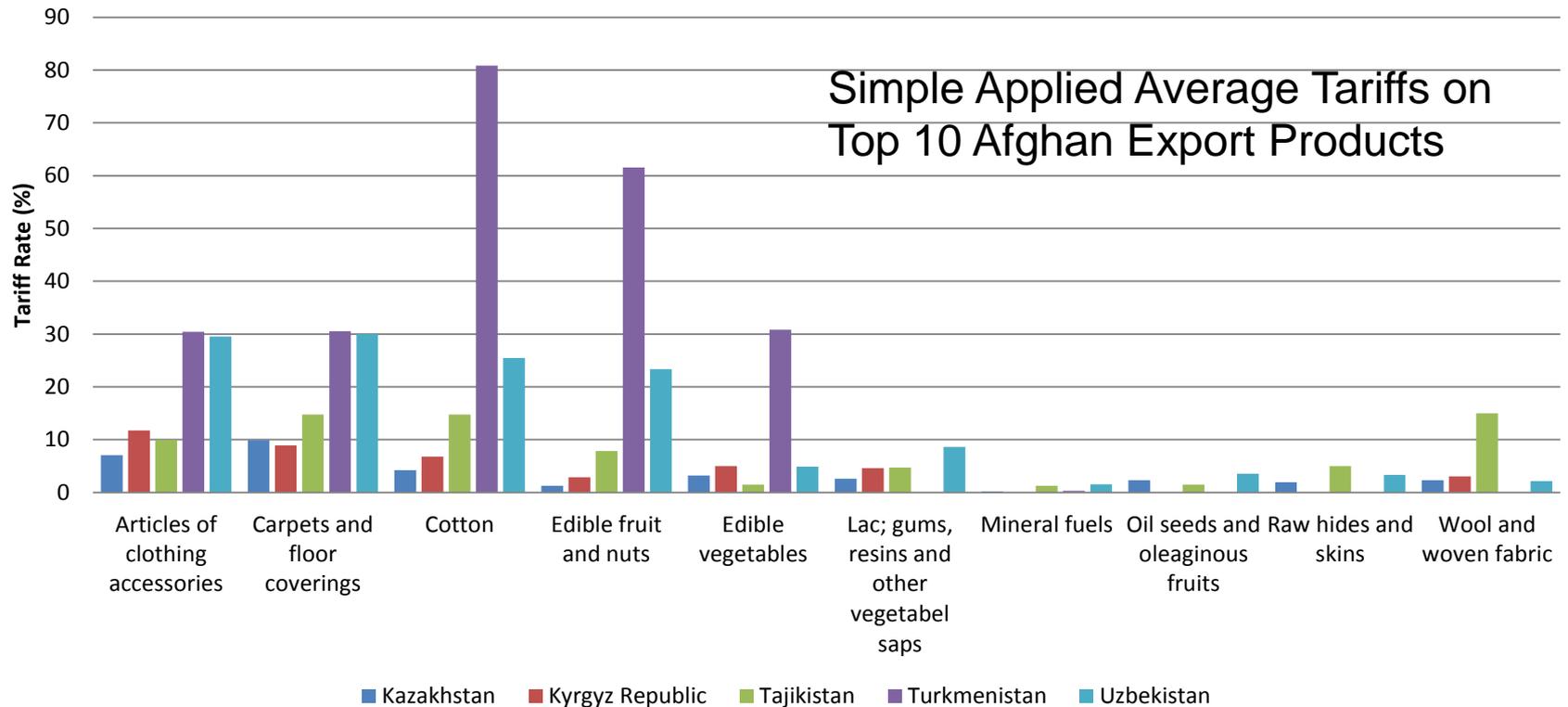
# Tariffs are fairly low across the region on average

- Afghanistan's tariff rates are among the lowest rates applied by LDCs anywhere in the world
- However, some of Afghanistan's top export products are facing higher than average tariffs in Central Asia (next slide)
- Notably, cotton; fruit; vegetables; and carpets
- Highest product specific tariffs in Turkmenistan and Uzbekistan

## Average MFN applied tariffs



# However, some of Afghanistan's top export products face significant tariff barriers



Source: WITS



# Non-tariff barriers may be inhibiting trade in agricultural products

- Non-tariff Barriers include wide range of policies, regulations and standards impacting trade
- Harder to identify and measure than tariffs; lack of comprehensive data on regional economies
- Some evidence that Afghan agricultural exports struggling to meet SPS standards of Central Asia countries
- This undermines the ability of export-oriented agriculture industries to supply their produce to the region



# Logistics performance continues to be weak, need for accelerated regional linkages

- Improved transport connectivity of Afghanistan with Central Asia could boost trade by up to \$12 billion, increasing regional trade by 160% and transit through Afghanistan by 110%, while Afghanistan's GDP would grow by 9-13%
- Logistics Performance Index: Afghanistan ranks 158/160, main issues: lack of infrastructure, slow processing of goods at borders, poor systems of tracking and tracing
- Afghanistan, Kyrgyzstan and Tajikistan have signed the Cross-Border Transportation Agreement to facilitate transit of goods
- 1450 km of railroad consisting of 4 corridors is proposed to be built in Afghanistan in RECCA-V, creating railroad links between Afghanistan, Iran, Tajikistan and Turkmenistan. Afghanistan relies on support of its partners to finance the project
- CAREC Economic Corridors improving linkages across region





# An enabling business environment is a prerequisite to strong cross-border links

- SMEs 75% of employment and contribute 50% to the GDP of Afghanistan
- Challenges in business environment prevent effective cross-border interaction of enterprises
- Access to finance is critical issue for many business
- Delays in permits (e.g. for construction) also frequently highlighted

## Afghanistan DBI Profile, 2015

TOPICS	DB 2015 Rank (out of 189)
Starting a Business 	24
Dealing with Construction Permits	185
Getting Electricity	141
Registering Property	183
Getting Credit	89
Protecting Minority Investors	189
Paying Taxes	79
Trading Across Borders	184
Enforcing Contracts	183
Resolving Insolvency	159





# Building connections amongst regional businesses can facilitate trade

- Connections amongst businesses and traders play an important role in facilitating trade alongside formal policies
- Informal trader networks are strong between Afghanistan and Iran and Pakistan due to strong social networks and linguistic proximity as well as lower cost of products and transportation.
- Since 1990s there are few trader networks between Afghanistan and Central Asia and they mostly deliver goods produced outside of Central Asia (especially Russia, whose exports to Afghanistan have decreased since 1991)
- Study of Afghan imports in key household sectors (Pharmaceuticals, cooking oil, salt, baby food and petrol) showed lack of trader networks with Central Asia led to imports being sourced from South Asia instead
- Labelling of products in Afghan languages (especially pharmaceuticals would help)
- Trade fairs between Central Asia, Russia and Afghanistan are needed to reinvigorate regional trader networks
- Travel restrictions for Afghani businessmen in Central Asia remain an obstacle





# Numerous regional co-operation mechanisms offer scope for further integration



## CAREC

- Developing Critical Economic Corridors
- Supported by six international partners



## SAARC/SAFTA

- Regional Trade Integration
- Currently excluding Central Asia



## SPECA

- Joint ESCAP and UNECE
- Six Project Working Groups: Transport, Water and Energy, Trade, Statistics, ICT for Development and Gender and Economy



## RECCA

- Dedicated to advance Afghan stabilization and South and Central Asian regional economic integration



## ECO

- ECO Trade Agreement (ECOTA), establishment of ECO Trade and Development Bank (ECOTDB), reactivation of ECO Chamber of Commerce and Industry (ECO-CCI) and cooperation in Customs matters



## APTTA

- APTTA guarantees freedom of transit between Afghanistan and Pakistan.
- Potential for extension to other countries?





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# ESCAP is seeking inputs from stakeholders to improve the study's evidence base and recommendations

## Evaluating current linkages

- Given lack of data, what is missing from the picture of current linkages?
- Are there particular sectors showing promise?

## Assessing barriers

- What explains current low levels of trade and investment?
- Which non-tariff barriers are the most important?

## Institutional structures

- How effective are current mechanisms for regional collaboration?
- What could be done to strengthen them?

## Recommendations

- What issues should be prioritized?
- What are short-term and long-term goals?





Thank you.

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